



# **STATEMENT OF ACCOUNTS**

**2011/12**



## **STATEMENT OF ACCOUNTS 2011/12**

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## EXPLANATORY FOREWORD

### 1. Introduction

The Statement of Accounts for 2011/12 meets the reporting and accounting requirements that are required by the CIPFA Code of Practice 2011/12 (the Code). The Code is based on and compliant with International Financial Reporting Standards (IFRS).

### 2. The main financial statements are

#### Statement of Responsibilities

This sets out the Council's and the Chief Financial Officer's responsibilities in relation to the administration of the Council's affairs.

#### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the 'Comprehensive Income and Expenditure Statement'. These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for council tax setting and rent setting purposes. The 'net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

#### Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

#### Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. These are Usable Reserves - ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use - and Unusable Reserves - ie those that the Council is not able to use to provide services. The latter category includes reserves that hold unrealised gains and losses (ie revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between accounting basis and funding basis under regulations'.

#### Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents to the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

#### Notes to the accounts including accounting policies

The accounting policies are the specific principles, bases, conventions, rules and practices applied by the Council in preparing and presenting the financial statements.

The notes to the accounts provide further analysis and background to assist in interpreting and understanding the core financial statements.

#### Housing Revenue Account and notes

The Housing Revenue Account (HRA) reflects the statutory obligation to maintain a separate revenue account for income and expenditure on council housing and related activities in accordance with the Local Government and Housing Act 1989. This specifies the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year. The notes provide further explanation about the HRA.

#### Collection Fund and notes

The Collection Fund is the statutory account that billing authorities must maintain separately from the rest of their accounts. It summarises council tax and business rate transactions for the Borough, County Council, Police Authority, Fire and Rescue Authority and Central Government. The notes provide further explanation about the Collection Fund.

#### Annual Governance Statement

The Accounts and Audit Regulations 2011 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include a statement reporting on the review with the Statement of Accounts.

### **3. Financial performance**

#### General Fund

The Council's revenue budget for 2011/12 before transfers to or from reserves was £11,318,430, the actual net expenditure for the year was £10,705,281 giving an under spending of £613,149

Main areas of underspend included : Salaries (£84,000), Administration Costs and Overheads (£55,000), Concessionary Travel - mainly from providing for appeal costs that did not materialise (£116,000), Housing Benefits – subject to the external audit of the subsidy claim (£253,000), Development Services £40,000, Waste Collection and Recycling – mainly additional income £25,000, Homelessness £45,000 and Local Land Charges – additional government grant income £32,000.

Main areas of overspend included : Net Interest Paid (£76,000) and Major Contracts - external advice (£57,000)

General fund net interest paid was £38,521 (budgeted £37,600cr).

The statutory revenue charge for debt outstanding in 2011/12 was £388,261.

The table below summarises 2011/12 by Council board as reflected in the 2012/13 budget book, as opposed to the statutory reporting format in the financial statements and shows the transfers to and from reserves. The actual figures include necessary accounting entries to comply with the IFRS Code.

|  | REVISED<br>2011/12<br>£ | ACTUAL<br>2011/12<br>£ | VARIANCE<br>2011/12<br>£ |
|--|-------------------------|------------------------|--------------------------|
| <b>GENERAL FUND</b>                                  |                         |                        |                          |
| Community Board                                      | 6,463,610               | 7,059,371              | 595,761                  |
| Economic Development Board                           | 917,400                 | 1,056,378              | 138,978                  |
| Policy & Organisation Board                          | 3,937,420               | 2,589,532              | (1,347,888)              |
| <b>Total Net Expenditure</b>                         | <b>11,318,430</b>       | <b>10,705,281</b>      | <b>(613,149)</b>         |
| GF Working Balance, contribution to / (from) reserve | 0                       | 0                      | 0                        |
| RFR, contribution from reserve                       | (610,840)               | (610,840)              | 0                        |
| RFR, contribution to reserve - underspend            |                         | 613,149                | 613,149                  |
| <b>Budget Total</b>                                  | <b>10,707,590</b>       | <b>10,707,590</b>      | <b>0</b>                 |
| <b>FINANCED BY</b>                                   |                         |                        |                          |
| Gosport Council Tax                                  | (5,596,587)             | (5,596,587)            |                          |
| Revenue Support Grant                                | (1,216,245)             | (1,216,245)            |                          |
| Non Domestic Rates Distribution                      | (3,934,758)             | (3,934,758)            |                          |
| Collection Fund Deficit                              | 40,000                  | 40,000                 |                          |
|  | <b>(10,707,590)</b>     | <b>(10,707,590)</b>    |                          |

#### General Fund Reserves

The General Fund working balance at 31 March 2012 is £890,000 as projected in the Budget Report for 2012/13.

The Revenue Financing Reserve (RFR) - which is used to fund variations in annual maintenance requirements, uninsurable risks and spend to save initiatives including severance costs – is £665,220 at 31 March 2012. In line with Council policy, the 2011/12 underspend was put into the RFR at year end.

The Council has other miscellaneous reserves totalling £759,000. All usable reserves are detailed in note 22 to the financial statements.

#### Housing Revenue Account

The Housing Revenue Account was forecast to have a revenue surplus of £164,000 for 2011/12 with a revised account balance of £603,370 at 31 March 2012. This was achieved and the HRA balance at 31 March 2012 was £603,200.

#### **4. Material assets acquired or liabilities incurred**

A summary of capital expenditure and financing for 2011/12 is shown below. This shows material schemes, additions and enhancements to the council's fixed assets, including the expenditure and funding of HRA self financing as described below.

| <b>SCHEME</b>  | <b>REVISED<br/>2011/12<br/>£</b> | <b>ACTUAL<br/>2011/12<br/>£</b> | <b>SLIPPAGE<br/>£</b> |
|--|----------------------------------|---------------------------------|-----------------------|
| <b>BY BOARD</b>  |                                  |                                 |                       |
| Community Board - Housing (HRA)                            | 3,843,000                        | 3,695,420                       | (375,600)             |
| Community Board - Housing Reform (HRA)                     | 0                                | 57,029,000                      | 0                     |
| Community Board - Housing (GF)                             | 1,067,000                        | 915,469                         | (80,480)              |
| Community Board - Non Housing                              | 5,663,000                        | 4,472,679                       | (606,470)             |
| Economic Development Board                                 | 86,000                           | 10,000                          | (76,000)              |
| Policy & Organisation Board                                | 552,000                          | 478,263                         | (102,330)             |
|  | <b>11,211,000</b>                | <b>66,600,831</b>               | <b>(1,240,880)</b>    |
| <b>BY MAJOR SCHEME</b>                                     |                                  |                                 |                       |
| Council Dwellings  | 2,643,000                        | 2,871,017                       | 0                     |
| Agnew House Family Centre                                  | 1,200,000                        | 824,403                         | (375,600)             |
| Housing Reform   | 0                                | 57,029,000                      | 0                     |
| Affordable Housing   | 649,000                          | 639,225                         | (10,000)              |
| Disabled Facilities  | 340,000                          | 264,994                         | (40,480)              |
| Housing Renewal  | 78,000                           | 11,250                          | (30,000)              |
| Landing Stage replacement                                  | 2,657,000                        | 2,338,362                       | 0                     |
| Gosport Leisure Park                                       | 1,597,000                        | 1,579,068                       | (17,930)              |
| Provide lighting to pathways within Leisure Parks, Gardens | 195,000                          | 16,807                          | (178,200)             |
| Privett Enclosure / GBFC Improved Facilities               | 171,000                          | 176,484                         | 0                     |
| Marine Parade West Public Convenience refurbishment        | 77,000                           | 5,970                           | (71,030)              |
| Public Conveniences refurbishment                          | 80,000                           | 3,850                           | (76,150)              |
| Information Technology                                     | 224,000                          | 164,423                         | (59,580)              |
| Town Hall Major Repairs                                    | 218,000                          | 246,591                         | 0                     |
| All other schemes  | 1,082,000                        | 429,388                         | (381,910)             |
|  | <b>11,211,000</b>                | <b>66,600,831</b>               | <b>(1,240,880)</b>    |
| <b>FINANCED BY</b>   |                                  |                                 |                       |
| Major Repairs Allowance                                    | 2,200,000                        | 2,323,636                       |                       |
| Capital Receipts   | 1,338,000                        | 288,386                         |                       |
| Developer Contributions - Open Spaces                      | 339,000                          | 79,507                          |                       |
| Other Grants & Contributions                               | 1,335,000                        | 802,332                         |                       |
| Capital Grants   | 240,000                          | 264,994                         |                       |
| Borrowing  | 5,759,000                        | 5,812,976                       |                       |
| Borrowing - HRA Reform                                     |                                  | 57,000,000                      |                       |
| Revenue - HRA Reform                                       |                                  | 29,000                          |                       |
|  | <b>11,211,000</b>                | <b>66,600,831</b>               |                       |

## 5. Pensions liability

The Statement of Accounts complies with International Accounting Standard (IAS)19 – the financial reporting standard on Retirement Benefits. This is expanded on in note 34 to the financial statements. The reported figures are supplied by independent actuaries to the Hampshire County Council administered pension fund.

The Balance Sheet and note show a worse position compared to last year's net pension deficit by £8.8 million (£31.43 million to £40.23 million) primarily due to changes in actuarial assumptions in measuring fund liabilities. This is a volatile figure and has a tendency to vary by several millions from year to year depending on actuarial assumptions and government guidance.

| 01-Apr-10<br>£'000           | 31-Mar-11<br>£'000 | 31-Mar-12<br>£'000 |
|------------------------------|--------------------|--------------------|
| (44,320)                     | (31,430)           | (40,230)           |
| <b>Net Pension Liability</b> |                    |                    |

## 6. Material or unusual charges or credits in the accounts.

There are two exceptional items for 2011/12 that are disclosed separately on the face of the Comprehensive Income and Expenditure Statement

- Housing Services – Settlement Payment to the Government for HRA Self Financing.

On 28 March 2012, the Council paid £57.029 million to the government in order to secure self financing of the Council's housing stock under the HRA reform initiative included in the Localism Act 2011. The cost of this is required to be separately disclosed on the face of both the HRA Income and Expenditure and Comprehensive Income and Expenditure Statements. The expenditure was financed by loans from the Public Works Loans Board (PWLB) of £57.0 million and a revenue contribution from the HRA of £29,000.

- Non Distributed Costs – In 2010/11 the Past Service Pension Credit arising from the change in the inflation index used in calculating statutory pension increases was £9.458 million. The 2011/12 Past Service Pension Credit for comparison is £197,000.

## 7. Significant changes in accounting policies

From 2011/12, the IFRS Code includes for the separate recognition and measurement of Heritage Assets which were previously included by the Council under Community Assets. Heritage Assets are now shown separately on the Balance Sheet and are described in notes 1 and 12 to the financial statements.

The adoption of Heritage Assets has required the restatement of comparative values for the previous opening and closing figures on the balance sheet.

## 8. Major change in statutory functions and planned developments in service delivery

### Revenue

- The adoption from 1 April 2011 by Hampshire County Council of responsibility for the concessionary travel function.
- The embedding of structural change following staffing reductions and a review of the Council's constitution.
- The implementation of major new contracts for waste, grounds and building maintenance services from April 2011.

### Capital

- The opening of the new Gosport Ferry landing stage in June 2011 and the agreement of 50 year finance and operating leases with the Gosport Ferry Company.

Future developments in service delivery include

### Revenue

- The implementation of HRA reform from April 2012 following the settlement payment to the government in 28 March 2012.

### Capital

- The construction of the new Gosport Leisure Park due for opening in 2012.

## 9. Current borrowing facilities and capital borrowing

The table below summarises the Council's net borrowing position as included in the balance sheet within the financial statements.

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |  | 31-Mar-12<br>£'000 |
|--------------------|--------------------|--|--------------------|
| 1,011              | 0                  | Long Term Investments                    | 0                  |
| 3,014              | 4,031              | Short Term Investments                   | 0                  |
| 509                | (1,430)            | Cash and Cash Equivalents/Bank Overdraft | 506                |
| (198)              | (1,203)            | Short Term Borrowing                     | (4,526)            |
| (15,089)           | (15,857)           | Long Term Borrowing                      | (70,521)           |
| <b>(10,753)</b>    | <b>(14,459)</b>    | <b>Net Borrowing position</b>            | <b>(74,541)</b>    |

Additional long term (Public Works Loan Board) borrowing of £57 million was taken during the year to finance the settlement payment to the government for HRA Self Financing as described in note 6 above. The Council agreed a flexible loan structure which when combined with the discounted rates of interest available as part of the government initiative provided a very competitive portfolio.

The Council's capital financing requirement – essentially a measure of the outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (or the underlying need to borrow) is set out below. This is reduced each year by the statutory charge to revenue for outstanding debt or minimum revenue provision. From 2011/12 it includes the effect of the settlement payment as described above.

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                               | 31-Mar-12<br>£'000 |
|--------------------|--------------------|-------------------------------|--------------------|
| 10,534             | 13,446             | Capital Financing Requirement | 76,366             |

## 10. The council's internal and external sources of funds available to meet its capital expenditure plans and other financial commitments.

The council's available reserves to meet both capital and expenditure plans and other financial commitments fall are

### Usable Reserves

Usable reserves are reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure). These are summarised below:

| 01-Apr-10      | 31-Mar-11      |                           | 31-Mar-12      |
|----------------|----------------|---------------------------|----------------|
| £'000          | £'000          |                           | £'000          |
| (890)          | (890)          | General Fund balance      | (890)          |
| (1,561)        | (645)          | Revenue Financing Reserve | (665)          |
| (358)          | (439)          | Housing Revenue Account   | (603)          |
| (1,046)        | (1,000)        | General Fund - Other      | (759)          |
| (65)           | (65)           | Capital Receipts Reserve  | (65)           |
| (109)          | 0              | Capital Grants Unapplied  | 0              |
| <b>(4,029)</b> | <b>(3,039)</b> |                           | <b>(2,982)</b> |

#### Grants and contributions receipts in advance

In addition to these 'usable' reserves the council also has £1.994 million as at 31 March 2012 (£2.518 million as at 31 March 2011) of developers' contributions that are available to spend. They are categorised separately to Usable Reserves as they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility.

#### **11. Details of significant provisions or contingencies and material write-offs.**

There are no provisions, contingencies or material write-offs to report for 2011/12.

#### **12. Details of any material events after the reporting date up to the date the accounts are authorised for issue**

There are no material events to report.

#### **13. Impact of the current economic climate on the Council and the services it provides**

Against the background of public sector expenditure reductions and an uncertain national economic position, the Council's overall financial position remains stable and a balanced budget has been set for 2012/13.

The need to ensure that future council tax levels are acceptable and reserve levels remain adequate is a priority and prompt and measured action has been taken including service changes, and staffing reductions. While the emphasis is on maintaining front line services, the methods of delivery have been, and continue to be, examined.

The reductions necessary to the Council's projected General Fund budget to achieve Council Tax increases of 2.5% incorporating latest inflation projections amount to approximately £0.36M over the 3 years from 2014/15.

There is a lot of uncertainty regarding future levels of Exchequer support, inflation and interest rates. The most optimistic current forecast beyond 2012/13 is that modest additional expenditure may be possible in some years, working within Council Tax rises of 2.5%p.a., whilst the worst scenario is for ongoing annual budget cuts of between £245,000 and £360,000 being required – over £1.1M over the next 4 years

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Authority's responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Councillor M. Hook  
Chair of Policy and Organisation Board

2012

### The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the local authority Code.

The Chief Finance Officer has also:

- kept proper accounting records which are up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31st March 2012. These financial statements replace the unaudited financial statements authorised for issue by the Deputy Chief Executive and Borough Treasurer on 27 June 2012.

Mr Julian Bowcher  
Borough Treasurer, Section 151 officer

2012

### Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for Council Tax setting and Dwellings Rent setting purposes. The 'Net Increase / Decrease before transfers to Earmarked Reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

|   | General Fund<br>Balance<br>£000 | Earmarked<br>General Fund<br>Reserves<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Total Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total Authority<br>Reserves<br>£000 |
|---|---------------------------------|---|---------------------------------------|--|-------------------------------------|----------------------------------|------------------------------|-------------------------------------|
| <b>Balance at 31 March<br/>2010</b>   | <b>(890)</b>                    | <b>(2,607)</b>                                | <b>(358)</b>                          | <b>(65)</b>                            | <b>(109)</b>                        | <b>(4,029)</b>                   | <b>(140,267)</b>             | <b>(144,296)</b>                    |
| <b>Movement during<br/>2010/11</b>  |                                 |   |                                       |  |                                     |                                  |                              |                                     |
| Deficit on the provision of<br>services   | (7,480)                         |   | 43,281                                |  |                                     | 35,801                           |                              | 35,801                              |
| Other Comprehensive<br>Income and Expenditure   |                                 |   |                                       |  | 109                                 | 109                              | (4,311)                      | (4,202)                             |
| <b>Total Comprehensive<br/>Income and<br/>Expenditure</b>                                 | <b>(7,480)</b>                  | <b>0</b>                                      | <b>43,281</b>                         | <b>0</b>                               | <b>109</b>                          | <b>35,910</b>                    | <b>(4,311)</b>               | <b>31,599</b>                       |
| Adjustments between<br>accounting basis &<br>funding basis under<br>regulations (Note 10) | 8,423                           |   | (43,343)                              | 0                                      | 0                                   | (34,920)                         | 34,920                       | 0                                   |
| <b>Net (increase)/decrease<br/>before transfers to<br/>Earmarked Reserves</b>             | <b>943</b>                      | <b>0</b>                                      | <b>(62)</b>                           | <b>0</b>                               | <b>109</b>                          | <b>990</b>                       | <b>30,609</b>                | <b>31,599</b>                       |
| Transfers to/(from)<br>Earmarked Reserves<br>(Note 22)                                    | (943)                           | 962   | (19)                                  |  |                                     | 0                                |                              | 0                                   |
| <b>Net (increase)/decrease<br/>in 2010/11</b>   | <b>0</b>                        | <b>962</b>                                    | <b>(81)</b>                           | <b>0</b>                               | <b>109</b>                          | <b>990</b>                       | <b>30,609</b>                | <b>31,599</b>                       |
| <b>Balance at 31 March<br/>2011</b>   | <b>(890)</b>                    | <b>(1,645)</b>                                | <b>(439)</b>                          | <b>(65)</b>                            | <b>0</b>                            | <b>(3,039)</b>                   | <b>(109,658)</b>             | <b>(112,697)</b>                    |

|  | General Fund<br>Balance<br>£000 | Earmarked<br>General Fund<br>Reserves<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Total Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total Authority<br>Reserves<br>£000 |
|--|---------------------------------|---|---------------------------------------|--|-------------------------------------|----------------------------------|------------------------------|-------------------------------------|
| <b>Movement during<br/>2011/12</b>   |                                 |   |                                       |  |                                     |                                  |                              |                                     |
| (Surplus)/Deficit on the<br>provision of services<br>Other Comprehensive<br>Income and Expenditure | 3,181                           |   | 57,973                                |  |                                     | 61,154                           |                              | 61,154                              |
|  |                                 |   |                                       |  |                                     | 0                                | 7,126                        | 7,126                               |
| <b>Total Comprehensive<br/>Income and<br/>Expenditure</b>  | <b>3,181</b>                    | <b>0</b>                                      | <b>57,973</b>                         | <b>0</b>                               | <b>0</b>                            | <b>61,154</b>                    | <b>7,126</b>                 | <b>68,280</b>                       |
| Adjustments between<br>accounting basis &<br>funding basis under<br>regulations (Note 10)          | (2,960)                         |   | (58,137)                              |  |                                     | (61,097)                         | 61,097                       | 0                                   |
| <b>Net (increase)/decrease<br/>before transfers to<br/>Earmarked Reserves</b>                      | <b>221</b>                      | <b>0</b>                                      | <b>(164)</b>                          | <b>0</b>                               | <b>0</b>                            | <b>57</b>                        | <b>68,223</b>                | <b>68,280</b>                       |
| Transfers to/(from)<br>Earmarked Reserves<br>(Note 22)   | (221)                           | 221   |                                       |  |                                     | 0                                |                              | 0                                   |
| <b>Net (increase)/decrease<br/>in 2011/12</b>  | <b>0</b>                        | <b>221</b>                                    | <b>(164)</b>                          | <b>0</b>                               | <b>0</b>                            | <b>57</b>                        | <b>68,223</b>                | <b>68,280</b>                       |
| <b>Balance at 31 March<br/>2012</b>  | <b>(890)</b>                    | <b>(1,424)</b>                                | <b>(603)</b>                          | <b>(65)</b>                            | <b>0</b>                            | <b>(2,982)</b>                   | <b>(41,435)</b>              | <b>(44,417)</b>                     |

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

In line with Code requirements, the Cultural, Environmental, Regulatory and Planning Services line has now been divided into three separate lines which are reflected below. The 2010/11 comparative figures have been restated accordingly.

| 2010/11              |                         |                    | Notes   | 2011/12              |                         |                    |
|----------------------|-------------------------|--------------------|---|----------------------|-------------------------|--------------------|
| Gross<br>Exp<br>£000 | Gross<br>Income<br>£000 | Net<br>Exp<br>£000 |   | Gross<br>Exp<br>£000 | Gross<br>Income<br>£000 | Net<br>Exp<br>£000 |
| 7,392                | (6,067)                 | 1,325              | Central Services to the Public  | 7,392                | (6,254)                 | 1,138              |
| 3,219                | (7)                     | 3,212              | Cultural and Related services   | 3,153                | (261)                   | 2,892              |
| 5,361                | (1,058)                 | 4,303              | Environment and Regulatory Services   | 4,664                | (973)                   | 3,691              |
| 2,504                | (1,154)                 | 1,350              | Planning Services   | 2,487                | (851)                   | 1,636              |
| 2,734                | (1,316)                 | 1,418              | Highways, Roads & Transport Services  | 1,733                | (1,017)                 | 716                |
| 38,504               | (37,894)                | 610                | Housing Services  | 42,056               | (40,942)                | 1,114              |
| 42,936               | 0                       | 42,936             | Housing Services - Exceptional Item   | 57,029               | 0                       | 57,029             |
| 2,793                | (123)                   | 2,670              | Corporate & Democratic core   | 2,611                | (122)                   | 2,489              |
| (9,458)              | 0                       | (9,458)            | Non Distributed Costs - Exceptional Item                                      | (197)                | 0                       | (197)              |
| <b>95,985</b>        | <b>(47,619)</b>         | <b>48,366</b>      | <b>Cost Of Services</b>   | <b>120,928</b>       | <b>(50,420)</b>         | <b>70,508</b>      |
|                      |                         |                    | 354 Other Operating Expenditure   |                      |                         | (555)              |
|                      |                         |                    | 476 Financing and Investment Income and Expenditure                           |                      |                         | 2,314              |
|                      |                         |                    | (13,395) Taxation and Non-Specific Grant Income                               |                      |                         | (11,113)           |
|                      |                         | <b>35,801</b>      | <b>Deficit on Provision of Services</b>                                       |                      |                         | <b>61,154</b>      |
|                      |                         |                    | 232 Surplus or deficit on revaluation of Property, Plant and Equipment assets |                      |                         | (1,604)            |
|                      |                         |                    | 26 Other recognised gains or losses   |                      |                         | 520                |
|                      |                         |                    | (4,460) Actuarial (gains) / losses on pension assets / liabilities            |                      |                         | 8,210              |
|                      |                         |                    | <b>Other Comprehensive (Income) and Expenditure</b>                           |                      |                         | <b>7,126</b>       |
|                      |                         |                    | <b>Total Comprehensive Income and Expenditure</b>                             |                      |                         | <b>68,280</b>      |

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves. ie those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. The unaudited accounts were issued on 27 June 2012 and the audited accounts were authorised for issue on 21 September 2012.

| 01-Apr-10<br>(restated)<br>£'000 | 31-Mar-11<br>(restated)<br>£'000 |  | Notes | 31-Mar-12<br>£'000 |
|----------------------------------|----------------------------------|--|-------|--------------------|
| 183,951                          | 142,184                          | Property, Plant & Equipment                  | 11    | 141,733            |
| 209                              | 209                              | Heritage Assets                              | 12    | 209                |
| 10,150                           | 11,237                           | Investment Property                          | 13    | 10,022             |
| 411                              | 486                              | Intangible Assets                            | 14    | 540                |
| 0                                | 0                                | Assets Held for Sale                         | 12    | 0                  |
| 1,011                            | 0                                | Long Term Investments                        | 15    | 0                  |
| 858                              | 782                              | Long Term Debtors                            | 18    | 5,601              |
| <b>196,590</b>                   | <b>154,898</b>                   | <b>Long Term Assets</b>                      |       | <b>158,105</b>     |
| 3,014                            | 4,031                            | Short Term Investments                       | 15    | 0                  |
| 36                               | 5                                | Inventories                                  | 17    | 0                  |
| 9,665                            | 8,973                            | Short Term Debtors                           | 18    | 6,894              |
| 509                              | 0                                | Cash and Cash Equivalents                    | 19    | 506                |
| <b>13,224</b>                    | <b>13,009</b>                    | <b>Current Assets</b>                        |       | <b>7,400</b>       |
| 0                                | (1,430)                          | Cash and Cash Equivalents/Bank Overdraft     | 19    | 0                  |
| (198)                            | (1,203)                          | Short Term Borrowing                         | 15    | (4,526)            |
| (2,144)                          | (2,649)                          | Short Term Creditors                         | 20    | (3,734)            |
| (59)                             | (40)                             | Short Term Liabilities                       | 33    | (41)               |
| 0                                | 0                                | Provisions                                   | 21    | 0                  |
| <b>(2,401)</b>                   | <b>(5,322)</b>                   | <b>Current Liabilities</b>                   |       | <b>(8,301)</b>     |
| (15,089)                         | (15,857)                         | Long Term Borrowing                          | 15    | (70,521)           |
| (123)                            | (83)                             | Other Long Term Liabilities                  | 33    | (42)               |
| (3,585)                          | (2,518)                          | Grants and Contributions Receipts in Advance | 29    | (1,994)            |
| (44,320)                         | (31,430)                         | Net Pension Liability                        | 35    | (40,230)           |
| <b>(63,117)</b>                  | <b>(49,888)</b>                  | <b>Long Term Liabilities</b>                 |       | <b>(112,787)</b>   |
| <b>144,296</b>                   | <b>112,697</b>                   | <b>Net Assets</b>                            |       | <b>44,417</b>      |
| (4,029)                          | (3,039)                          | Usable reserves                              | 22    | (2,982)            |
| (140,267)                        | (109,658)                        | Unusable Reserves                            | 23    | (41,435)           |
| <b>(144,296)</b>                 | <b>(112,697)</b>                 | <b>Total Reserves</b>                        |       | <b>(44,417)</b>    |

## Cash Flow Statement

The Cash Flow statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

| 2010/11<br>£000  | Notes | 2011/12<br>£000 |
|--|-------|-----------------|
| 35,801   |       | 61,154          |
| Net (surplus) or deficit on the provision of services  |       |                 |
| (47,371)   | 38    | (11,010)        |
| Adjustments to surplus or deficit on the provision of services for non-cash movements  |       |                 |
| 8,860  |       | 5,543           |
| Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities |       |                 |
| <b>(2,710)</b>   |       | <b>55,687</b>   |
| Net Cash flows from Operating Activities   |       |                 |
| 4,378  | 38    | 3,271           |
| Net Cash flows from Investing Activities   |       |                 |
| 271  | 38    | (60,894)        |
| Net Cash flows from Financing Activities   |       |                 |
| <b>1,939</b>   |       | <b>(1,936)</b>  |
| Net (increase) or decrease in cash and cash equivalents  |       |                 |
| 509  |       | (1,430)         |
| Cash and cash equivalents at the beginning of the reporting period   |       |                 |
| (1,430)  |       | (506)           |
| Cash and cash equivalents at the end of the reporting period   |       |                 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies

#### a) General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year end of 31 March 2012.

The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require the annual statement of accounts to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice 2011/12, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

#### b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

#### c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Council's main bank account.

Cash equivalents are deposits with financial institutions repayable without penalty within one day for known amounts of cash with insignificant risk of changes in value.

The following Council accounts and instruments are treated as cash and cash equivalents.

##### National Westminster Group Account consisting of

- Main Account

- Payments Account
- Online Account

#### Call Accounts

- Corporate Deposit Account
- Liquidity Select Account

#### Money Market Fund Accounts

- Global Treasury Account
- The Public Sector Deposit Fund (CCLA Investment Management Ltd)

#### Temporary Deposits

- Deposits placed with approved institutions which are repayable within one day of the balance sheet date

In the cash flow statement, the cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form part of the Authority's banking arrangements.

### **d) Employee Benefits**

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (including flexi time but not time off in lieu which is judged not to be material) earned by employees but not taken before the year-end which employees can carry forward into the next financial year.

The accrual is calculated on the actual outstanding benefits at year end at current wage and salary rates and charged directly to the Surplus or Deficit on the Provision of Services. It is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### Post Employment Benefits

The majority of the Council's employees belong to the Local Government Superannuation Scheme (LGPS) administered by Hampshire County Council. Detailed regulations govern rates of contribution and scales of benefit.

The pension scheme is detailed in note 34 to the accounting statements.

The Local Government Scheme is accounted for as a defined benefits scheme.

- The liabilities of the LGPS attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 4.7% based on the current rate of return on high quality corporate bonds of equivalent term and currency to the liabilities.
- Assets of the LGPS attributable to the council are included in the balance sheet at their fair value.

The council's change in the net pension liability is analysed into 7 components

|   |   |
|---|---|
| Current service costs                           | The increase in liabilities as a result of service earned this year – allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked  |
| Past service costs                              | The increase in liabilities arising from current year's decisions whose effect relates to years of service earned in earlier years – charged to Non-Distributed Costs in the Comprehensive Income and Expenditure Account   |
| Interest Cost                                   | The expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account  |
| Expected return on assets                       | The annual investment return on the fund assets attributable to the Council, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Account  |
| Gains or losses on settlements and curtailments | The result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs |
| Actuarial gains and losses                      | Changes in the pension liability that arises because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve  |
| Employers' contributions payable to scheme      | Cash paid as employers' contributions to the pension fund   |

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

**e) Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

**f) Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

**g) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

**h) Charges to Revenue for Non-Current Assets**

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance of the Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## i) **Financial Instruments**

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Discounts are apportioned over the lifetime of replacement loans with the unapportioned balance being included on the balance sheet within the carrying amount of the outstanding loans.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

The Council makes car loans, at an interest rate of 4%, available to certain employees as part of its recruitment and retention package

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **j) Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

**k) Heritage Assets**

The Council's Heritage Assets are held in the Town Hall.

The heritage assets largely comprise items of civic regalia and paintings as well as a mayoral chain and other miscellaneous items. They are all held in support of their primary objective of contributing to knowledge and culture and have cultural and historic associations that make their preservation for future generations important.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Council's collections of heritage assets are accounted for as follows:-

- Civic Regalia – annually updated insurance valuation
- Paintings – a collection of 56 paintings located throughout the Town Hall, valued by an annually updated insurance valuation and annual inventory check
- Mayoral Chain – annually updated insurance valuation
- Other Items – including a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

There are no intangible heritage assets

In addition to the Council's heritage assets held in the Town Hall and included in this statement of accounts, a Gosport Museum collection is also held by the Hampshire County Council Museums Service (HCCMS). This collection is partially owned by Gosport Borough Council and partially by Hampshire County Council and although being located principally at the Gosport Museum some items are held separately in specialised storage conditions at Hampshire County Council premises outside of Gosport. No total valuation exists for this collection which is covered by the County Council's insurance arrangements.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

Acquisitions and donations are rare. Where they do occur, acquisitions are recognised at cost and donations are recognised at valuation ascertained in accordance with the Council's policy on valuation of heritage assets.

The proceeds of any disposals are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes in the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

Heritage assets are considered to have an indefinite life and no depreciation is therefore charged.

#### **l) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **m) Interests in Companies and Other Entities**

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts.

The Council has an interest in an entity that does not require the production of group accounts and this is disclosed in note 30 to the accounting statements.

**n) Inventories and Long Term Contracts**

Inventories, where applicable, are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

**o) Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**p) Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

*Finance Leases*

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### *Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

#### The Authority as Lessor

##### *Finance Leases*

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### *Operating Leases*

Where the Authority grants an operating lease over a property or an item of plant or equipment the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

#### **q) Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12 (SerCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services

## r) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

A de-minimus level of £10,000 has been set below which the initial cost of assets is not capitalised

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance. In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (ie freehold land) and assets that are not yet available for use (ie assets under construction).

Depreciation is not charged on Community Assets or Garages as it is the Council's view that most of their value is held in land and it is not therefore depreciable.

Depreciation is calculated using the straight-line method, based on the opening balance plus any material movement and assuming a nil residual value, on the following bases:

- Council Dwellings - equal to the Major Repairs Allowance. This represents a capital sum that is allowed annually to maintain the council's housing stock and in 2011/12 is £2.324 m
- Buildings - straight-line allocation over the useful life of the property as estimated by the Valuer

- Vehicles, Plant and Equipment - straight line allocation over 4 to 10 years depending on the asset
- Infrastructure – straight-line allocation over 20 to 50 years depending on the asset

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately in line with the following policy:

Componentisation of an asset or group of assets will be considered where the carrying value of an asset is greater than £800,000, the component is at least 20% of the carrying value of the asset and there is a potentially significant impact on depreciation.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets Held for Sale must meet certain criteria including that they are likely to be sold in current condition within a year and are being actively marketed.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

**s) Provisions, Contingent Liabilities and Contingent Assets**

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation but where the timing of the transfer is uncertain. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

The Council maintains a provision for bad debts and doubtful debts that may be irrecoverable.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

**t) Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

The Council's main reserves are described further in notes 22 and 23 to the accounting statements

**u) Revenue Expenditure funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

**v) Value Added Tax**

Income and expenditure excludes any amounts related to VAT as this is accounted for separately with VAT collected being paid to HM Revenue and Customs and VAT paid being recoverable from them.

## 2. New Accounting Standards – issued but not yet adopted

The Code requires the council to identify any accounting standards that have been issued but have yet to be adopted.

The amendments to IFRS 7 Financial Instruments: Disclosures which have been adopted by the Code from 1 April 2012 are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

It is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements of the Council.

The adoption of the amendments to IFRS 7 Financial Instruments: Disclosures in the Code is not a change of accounting policy that will require the publication of a Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) in the 2012/13 financial statements

## 3. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- **Future funding for local government** - there is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- **Asset classifications** – the council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These are based on the main reason that the council is holding the asset with the classification determining the valuation method to be used.
- **Lease classifications** – the council has made judgements on whether its lease arrangements are operating leases or finance leases. There is an element of subjectivity in these assessments and de-minimus levels have been applied. The accounting treatment for operating and finance leases is different (see accounting policy on Leases) and may have a significant effect on the accounts.
- **Contractual arrangements** - the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).
- **Group Accounts** – the Council has made a judgement not to produce Group Accounts. As a member of the Portchester Crematorium Joint Committee (PCJC), the Council has an interest in the management of the Portchester Crematorium. The PCJC prepare a short form of accounts as a 'small entity' in line with the Accounts and Audit Regulations 2011 and accounts for all relevant asset and employee costs
- **Potential Liabilities** - the Council has made judgements about the likelihood of potential liabilities and whether a provision should be made. The judgements are based on the degree of certainty and an assessment of the likely impact.
- **Doubtful debts allowances** - the council has made judgements on a prudent level of allowances for doubtful debts. These are based on historical experience of debtor defaults and the current economic climate.

#### 4 Uncertainties relating to Assumptions and Estimates used

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

| Item                          | Uncertainties   | Effect if Actual Results Differ from Assumptions   |
|-------------------------------|---|--|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the service delivery and level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.   |
| Pensions Liability            | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £6.37 million.<br><br>However, the assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £0.66 million as a result of estimates being corrected as a result of experience and increased by £6.24 million attributable to updating of the |

|                          |  | assumptions.  |
|--------------------------|--|---|
| Doubtful Debt Allowances | The council has made allowances for doubtful debts of £1.759 million in 2011/12 (£1.545 million in 2010/11) based on what it believes to be a prudent but realistic level. | If debt collection rates were to deteriorate or improve, a 5% change in the General Fund allowances would require an adjustment to the allowance of £82,000 (£71,000 in 2010/11). |

## 5 Exceptional Items

The following two exceptional items have been separately disclosed on the face of the Comprehensive Income and Expenditure Statement on page 15 by virtue of their nature and size.

2010/11

- Housing Services – Impairment - £42.936 million

The annual valuation of the HRA asset base has resulted in a reduction in value of the Council's housing stock which cannot be offset against a Revaluation Reserve balance. The fall in value is due primarily to a change in the social housing adjustment factor. Note 11 to the HRA Income and Expenditure Statement also refers.

- Non Distributed Costs – Past Service Pension Costs - £9,458 million credit

Certain retirement benefit costs or credits are excluded from the definition of the total costs of services and are defined as Non Distributed Costs. These must be shown separately on the face of the Comprehensive Income and Expenditure Statement and this heading is included here as an extraordinary item because of the size of the reported sum. The credit is due primarily to the change in the inflation index used to derive statutory pension increases from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The CPI being lower than the RPI.

2011/12

- Housing Services – Settlement Payment to the Government for HRA Self Financing - £57.029 million.

The Council borrowed £57.000 million from the Public Works Loans Board (PWLB) on 28 March 2012 and paid £57.029 million to the government on the same day in order to secure self financing of the Council's housing stock under the HRA reform initiative included in the Localism Act 2011. The cost of this is required to be separately disclosed on the face of the Comprehensive Income and Expenditure Statement and the HRA Income and Expenditure Statement.

- Non Distributed Costs – In 2010/11 the Past Service Pension Credit arising from the change in the inflation index used in calculating statutory pension increases was £9.458 million. The 2011/12 Past Service Pension Credit for comparison is £197,000.

## 6. Material Items of Income and Expense

There are no material items of income and expense, excluding the exceptional items in note 5, that are not disclosed on the face of the Comprehensive Income and Expenditure Statement.

## 7. Other Operating Expenditure

| 2010/11<br>£'000   | 2011/12<br>£'000 |
|--|------------------|
| 251 Payments to the Government Housing Capital Receipts Pool | 153              |
| 103 (Gain) or Loss on the disposal of non-current assets     | (708)            |
| <b>354</b>   | <b>(555)</b>     |

## 8. Financing and Investment Income and Expenditure

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| 534 Interest payable & similar charges inc finance lease rentals payable & debt rescheduling premiums | 633              |
| 1,500 Pensions interest cost and expected return on pensions assets                                   | 990              |
| (270) Interest income inc finance lease rentals receivable & debt rescheduling discounts              | (363)            |
| (1,288) Net income in relation to investment properties and changes in their fair value               | 1,054            |
| <b>476</b>  | <b>2,314</b>     |

## 9. Taxation and Non Specific Grant Income

| 2010/11<br>£'000                         | 2011/12<br>£'000 |
|--|------------------|
| (5,589) Council Tax Income               | (5,620)          |
| (6,372) Non Domestic Rates               | (3,935)          |
| (1,011) Non-Ringfenced Government Grants | (1,356)          |
| (423) Capital Grants and Contributions   | (202)            |
| <b>(13,395)</b>                          | <b>(11,113)</b>  |

## 10. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

| <b>2011/12</b>   | <b>General Fund<br/>Balance<br/>£000</b> | <b>Housing<br/>Revenue<br/>Account<br/>£000</b> | <b>Capital<br/>Receipts<br/>Reserve<br/>£000</b> | <b>Capital Grants<br/>Unapplied<br/>£000</b> | <b>Total Usable<br/>Reserves<br/>£000</b> |
|--|--|---|--|--|---|
| <b><i>Adjustments primarily involving the Capital Adjustment Account:</i></b>  |  |   |  |  |   |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |  |   |  |  |   |
| Charges for depreciation and impairment of non-current assets  | (2,481)                                  | (820)   |  |  | <b>(3,301)</b>                            |
| Movements in the market value of Investment Properties   | (1,239)                                  |   |  |  | <b>(1,239)</b>                            |
| Amortisation of intangible assets  | (92)                                     |   |  |  | <b>(92)</b>                               |
| Capital grants and contributions   | 1,147                                    |   |  |  | <b>1,147</b>                              |
| Settlement Payment to the Government for HRA Self Financing  |  | (57,029)  |  |  | <b>(57,029)</b>                           |
| Revenue expenditure funded from capital under statute  | (988)                                    |   |  |  | <b>(988)</b>                              |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (4,625)                                  | (218)   |  |  | <b>(4,843)</b>                            |

| 2011/12   | General Fund<br>Balance<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital Receipts<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Total Usable<br>Reserves<br>£000 |
|---|---------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|----------------------------------|
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                                 |                                       |                                     |                                     |                                  |
| Statutory provision for the financing of capital investment   | 388                             |                                       |                                     |                                     | 388                              |
| Capital expenditure charged against the General Fund and HRA balances   |                                 | 29                                    |                                     |                                     | 29                               |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>  |                                 |                                       |                                     |                                     |                                  |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement   | 237                             | 229                                   | (466)                               |                                     | 0                                |
| Use of the Capital Receipts Reserve to finance new capital expenditure  |                                 |                                       | 288                                 |                                     | 288                              |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals  |                                 | (25)                                  | 25                                  |                                     | 0                                |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.   |                                 | (153)                                 | 153                                 |                                     | 0                                |
| <b>Adjustments primarily involving the Deferred Capital Receipts Reserve (England and Wales):</b>   |                                 |                                       |                                     |                                     |                                  |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement  | 5,109                           |                                       |                                     |                                     | 5,109                            |
| <b>Adjustments primarily involving the Pensions Reserve:</b>  |                                 |                                       |                                     |                                     |                                  |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)   | (1,958)                         | (362)                                 |                                     |                                     | (2,320)                          |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | 1,480                           | 250                                   |                                     |                                     | 1,730                            |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>  |                                 |                                       |                                     |                                     |                                  |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                | 63                              |                                       |                                     |                                     | 63                               |
| <b>Adjustment primarily involving the Accumulated Absences Account</b>  |                                 |                                       |                                     |                                     |                                  |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (1)                             | (38)                                  |                                     |                                     | (39)                             |
| <b>Total Adjustments</b>  | <b>(2,960)</b>                  | <b>(58,137)</b>                       | <b>0</b>                            | <b>0</b>                            | <b>(61,097)</b>                  |

| 2010/11  | General Fund<br>Balance<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Total Usable<br>Reserves<br>£000 |
|--|---------------------------------|---------------------------------------|--|-------------------------------------|----------------------------------|
| <b>Adjustments primarily involving the Capital Adjustment Account:</b>   |                                 |                                       |  |                                     |                                  |
| <b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                                 |                                       |  |                                     |                                  |
| Charges for depreciation and impairment of non-current assets  | (1,615)                         | (42,936)                              |  |                                     | (44,551)                         |
| Movements in the market value of Investment Properties   | 1,028                           |                                       |  |                                     | 1,028                            |
| Amortisation of intangible assets  | (116)                           |                                       |  |                                     | (116)                            |
| Capital grants and contributions   | 1,533                           |                                       |  |                                     | 1,533                            |
| Revenue expenditure funded from capital under statute  | (1,295)                         |                                       |  |                                     | (1,295)                          |
| Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (155)                           | 52                                    |  |                                     | (103)                            |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                                 |                                       |  |                                     |                                  |
| Statutory provision for the financing of capital investment  | 358                             |                                       |  |                                     | 358                              |
| Transfer of GF Earmarked Reserves  | (19)                            | 19                                    |  |                                     | 0                                |
| <b>Adjustments primarily involving the Capital Receipts Reserve:</b>   |                                 |                                       |  |                                     |                                  |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement                            |                                 |                                       | (326)                                  |                                     | (326)                            |
| Use of the Capital Receipts Reserve to finance new capital expenditure   |                                 |                                       | 84                                     |                                     | 84                               |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals   |                                 |                                       | 17                                     |                                     | 17                               |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.  |                                 | (251)                                 | 251                                    |                                     | 0                                |
| Transfer from Deferred Capital receipts Reserve upon receipt of cash   |                                 |                                       | (26)                                   |                                     | (26)                             |
| <b>Adjustments primarily involving the Pensions Reserve:</b>   |                                 |                                       |  |                                     |                                  |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 34)                | 7,088                           | (608)                                 |  |                                     | 6,480                            |
| Employer's pensions contributions and direct payments to pensioners payable in the year  | 1,569                           | 381                                   |  |                                     | 1,950                            |

| 2010/11   | General Fund<br>Balance<br>£000 | Housing<br>Revenue<br>Account<br>£000 | Capital Receipts<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Total Usable<br>Reserves<br>£000 |
|---|---------------------------------|---------------------------------------|-------------------------------------|-------------------------------------|----------------------------------|
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b><br>Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements        | 41                              |                                       |                                     |                                     | 41                               |
| <b>Adjustment primarily involving the Accumulated Absences Account</b><br>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 6                               |                                       |                                     |                                     | 6                                |
| <b>Total Adjustments</b>  | <b>8,423</b>                    | <b>(43,343)</b>                       | <b>0</b>                            | <b>0</b>                            | <b>(34,920)</b>                  |

## 11. Property, Plant and Equipment

### Depreciation

The table below summarises the methods of depreciation used for the Council's assets. In line with the CIPFA Code of Practice, land and investment properties are not depreciated. There have been no changes in depreciation methods in 2011/12.

| Asset   | Depreciation Method  |
|---|--|
| Council Dwellings   | Set equal to the Major Repairs Allowance, the capital sum received annually from the government to maintain the Council's Housing Stock                            |
| Other Land & Buildings (Operational Property and Garages) | Straight line method with asset lives being individually assessed<br>Garages are not depreciated as it is the Council's view that most of the value is in the land |
| Vehicles, Plant & Equipment                               | Straight line method over 5 to 10 years<br>IT hardware is assessed to provide an asset life.   |
| Infrastructure  | Straight line method over 20 to 50 years depending on the asset  |
| Community Assets  | No charge – it is the Council's view that most of the value of Community Assets is held in land and is not therefore depreciable                                   |

| <b>Movement in Plant, Property and Equipment for 2011/12</b> | <b>Council Dwellings</b> | <b>Land &amp; Buildings</b> | <b>Vehicles, Plant &amp; Equipment</b> | <b>Infrastructure</b> | <b>Community Assets</b> | <b>Surplus Assets</b> | <b>Assets Under Construction</b> | <b>Total Plant, Property &amp; Equipment</b> |
|--|--------------------------|-----------------------------|--|-----------------------|-------------------------|-----------------------|----------------------------------|--|
| <b>Cost or Valuation</b>                                     |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2011  | 169,510                  | 21,455                      | 4,928                                  | 13,934                | 3,396                   | 0                     | 3,641                            | 216,864                                      |
| Additions  | 2,871                    | 2,773                       | 104                                    | 36                    | 199                     |                       | 2,430                            | 8,413  |
| Revaluation increases/(decreases) to RR                      |                          | 212                         |  |                       |                         |                       |                                  | 212  |
| Revaluation increases/(decreases) to SDPS                    |                          | (1,247)                     |  |                       |                         |                       |                                  | (1,247)                                      |
| De-recognition - Disposals                                   | (351)                    | (4,737)                     | (33)                                   |                       |                         |                       |                                  | (5,121)                                      |
| De-recognition - Other                                       |                          | (247)                       | (1,128)                                |                       |                         |                       |                                  | (1,375)                                      |
| Assets reclassified  |                          | 3,443                       |  | (657)                 | 306                     | 80                    | (3,172)                          | 0  |
| Other movements in cost or valuation                         |                          |                             |  |                       |                         |                       |                                  | 0  |
| <b>At 31 March 2012</b>                                      | <b>172,030</b>           | <b>21,652</b>               | <b>3,871</b>                           | <b>13,313</b>         | <b>3,901</b>            | <b>80</b>             | <b>2,899</b>                     | <b>217,746</b>                               |
| <b>Accumulated Depreciation &amp; Impairment</b>             |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2011  | (63,886)                 | (2,885)                     | (3,887)                                | (4,022)               | 0                       | 0                     | 0                                | (74,680)                                     |
| Depreciation Charge  | (2,324)                  | (1,000)                     | (233)                                  | (1)                   |                         |                       |                                  | (3,558)                                      |
| Depreciation & Impairment written out to RR                  | 63,752                   | 882                         |  |                       |                         |                       |                                  | 64,634                                       |
| Impairment losses/(reversals) to RR                          | (63,271)                 | 29                          |  |                       |                         |                       |                                  | (63,242)                                     |
| Impairment losses/(reversals) to SDPS                        | (820)                    |                             |  |                       |                         |                       |                                  | (820)  |
| De-recognition - Disposals                                   | 133                      | 379                         | 13                                     |                       |                         |                       |                                  | 525  |
| De-recognition - Other                                       |                          |                             | 1,128                                  |                       |                         |                       |                                  | 1,128  |
| Other movements in Depreciation or Impairment                |                          | 12                          |  |                       |                         | (12)                  |                                  | 0  |
| <b>At 31 March 2012</b>                                      | <b>(66,416)</b>          | <b>(2,583)</b>              | <b>(2,979)</b>                         | <b>(4,023)</b>        | <b>0</b>                | <b>(12)</b>           | <b>0</b>                         | <b>(76,013)</b>                              |
| <b>Net Book Value</b>  |                          |                             |  |                       |                         |                       |                                  |  |
| <b>At 31 March 2012</b>                                      | <b>105,614</b>           | <b>19,069</b>               | <b>892</b>                             | <b>9,290</b>          | <b>3,901</b>            | <b>68</b>             | <b>2,899</b>                     | <b>141,733</b>                               |

RR = Revaluation Reserve

SDPS = Surplus or Deficit on the Provision of Services

| <b>Movement in Plant, Property and Equipment for 2010/11</b> | <b>Council Dwellings</b> | <b>Land &amp; Buildings</b> | <b>Vehicles, Plant &amp; Equipment</b> | <b>Infrastructure</b> | <b>Community Assets</b> | <b>Surplus Assets</b> | <b>Assets Under Construction</b> | <b>Total Plant, Property &amp; Equipment</b> |
|--|--------------------------|-----------------------------|--|-----------------------|-------------------------|-----------------------|----------------------------------|--|
| <b>Cost or Valuation</b>                                     |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2010  | 167,468                  | 21,887                      | 5,007                                  | 13,923                | 3,130                   | 0                     | 1,135                            | 212,550                                      |
| Additions  | 2,329                    | 155                         | 192                                    | 11                    | 278                     |                       | 2,506                            | 5,471  |
| Revaluation increases/(decreases) to RR                      |                          |                             |  |                       |                         |                       |                                  | 0  |
| Revaluation increases/(decreases) to SDPS                    |                          | (380)                       |  |                       |                         |                       |                                  | (380)  |
| De-recognition - Disposals                                   | (287)                    | (155)                       | (271)                                  |                       |                         |                       |                                  | (713)  |
| De-recognition - Other                                       |                          |                             |  |                       |                         |                       |                                  | 0  |
| Assets reclassified  |                          | (52)                        |  |                       | (12)                    |                       |                                  | (64)   |
| Other movements in cost or valuation                         |                          |                             |  |                       |                         |                       |                                  | 0  |
| <b>At 31 March 2011</b>                                      | <b>169,510</b>           | <b>21,455</b>               | <b>4,928</b>                           | <b>13,934</b>         | <b>3,396</b>            | <b>0</b>              | <b>3,641</b>                     | <b>216,864</b>                               |
| <b>Accumulated Depreciation &amp; Impairment</b>             |                          |                             |  |                       |                         |                       |                                  |  |
| At 1 April 2010  | (18,934)                 | (2,177)                     | (3,811)                                | (3,666)               | 0                       | 0                     | 0                                | (28,588)                                     |
| Depreciation Charge  | (1,966)                  | (912)                       | (347)                                  | (356)                 |                         |                       |                                  | (3,581)                                      |
| Depreciation written out to RR                               | 2,539                    | 159                         |  |                       |                         |                       |                                  | 2,698  |
| Impairment losses/(reversals) to RR                          | (2,594)                  |                             |  |                       |                         |                       |                                  | (2,594)                                      |
| Impairment losses/(reversals) to SDPS                        | (42,936)                 |                             |  |                       |                         |                       |                                  | (42,936)                                     |
| De-recognition - Disposals                                   | 5                        |                             |  |                       |                         |                       |                                  | 5  |
| De-recognition - Other                                       |                          |                             | 271                                    |                       |                         |                       |                                  | 271  |
| Other movements in Depreciation or Impairment                |                          | 45                          |  |                       |                         |                       |                                  | 45   |
| <b>At 31 March 2011</b>                                      | <b>(63,886)</b>          | <b>(2,885)</b>              | <b>(3,887)</b>                         | <b>(4,022)</b>        | <b>0</b>                | <b>0</b>              | <b>0</b>                         | <b>(74,680)</b>                              |
| <b>Net Book Value</b>  |                          |                             |  |                       |                         |                       |                                  |  |
| <b>At 31 March 2011</b>                                      | <b>105,624</b>           | <b>18,570</b>               | <b>1,041</b>                           | <b>9,912</b>          | <b>3,396</b>            | <b>0</b>              | <b>3,641</b>                     | <b>142,184</b>                               |

RR = Revaluation Reserve

SDPS = Surplus or Deficit on the Provision of Services

### Capital Commitments

Significant commitments for future expenditure at 31 March include:

| 2010/11<br>£'000                | 2011/12<br>£'000 |
|---------------------------------|------------------|
| - Agnew House Family Centre     | 376              |
| 300 PHA – Social Housing        | -                |
| 139 Accommodation & IT          | 60               |
| 2,657 Landing Stage replacement | -                |
| 6,801 Gosport Leisure Park      | 6,507            |
| <b>9,897</b>                    | <b>6,943</b>     |

### Revaluations

The table below shows the progress of the Council's rolling programme of fixed asset revaluations in line with the valuation methods set out in the Statement of Accounting Policies. The valuations, except for Council Dwellings, are carried out by Capita Symonds Ltd and the Council's Property Services Manager: Mr M. Pam MRICS BA. Council Dwellings are valued by Savills (L&P) Ltd on behalf of the Council. The valuations are gross balance sheet value before depreciation.

|                             | Historical | Fair Value - revalue when indicated |                  |                  |                  |                  | Total<br>£'000 |                |
|-----------------------------|------------|-------------------------------------|------------------|------------------|------------------|------------------|----------------|----------------|
|                             | £'000      | 2011/12<br>£'000                    | 2010/11<br>£'000 | 2009/10<br>£'000 | 2008/09<br>£'000 | 2007/08<br>£'000 |                |                |
| Property, Plant & Equipment |            |                                     |                  |                  |                  |                  |                |                |
| Council Dwellings           |            | 172,030                             |                  |                  |                  |                  | 172,030        |                |
| Operational Property        |            | 7,017                               | 2,127            | 7,998            | 1,660            | 1,892            | 20,694         |                |
| Garages                     |            | 958                                 |                  |                  |                  |                  | 958            |                |
| Equipment                   | 3,871      |                                     |                  |                  |                  |                  | 3,871          |                |
| Infrastructure              | 13,313     |                                     |                  |                  |                  |                  | 13,313         |                |
| Community Assets            | 3,901      |                                     |                  |                  |                  |                  | 3,901          |                |
| Surplus Assets              | 80         |                                     |                  |                  |                  |                  | 80             |                |
| Assets under Construction   | 2,899      |                                     |                  |                  |                  |                  | 2,899          |                |
|                             |            | <b>24,064</b>                       | <b>180,005</b>   | <b>2,127</b>     | <b>7,998</b>     | <b>1,660</b>     | <b>1,892</b>   | <b>217,746</b> |

### Assets Held For Sale

The Council does not have any assets that meet the Code definition of Assets Held for Sale.

## 12. Heritage Assets

Movement of the carrying value of Heritage Assets held by the Authority

|                          | <b>Civic<br/>Regalia</b> | <b>Mayoral<br/>Chain</b> | <b>Paintings</b> | <b>Other</b> | <b>Total</b> |
|--------------------------|--------------------------|--------------------------|------------------|--------------|--------------|
|                          | £'000                    | £'000                    | £'000            | £'000        | £'000        |
| <b>Cost or Valuation</b> |                          |                          |                  |              |              |
| <b>01-Apr-10</b>         | 49                       | 53                       | 97               | 10           | 209          |
| Additions                |                          |                          |                  |              | 0            |
| Disposals                |                          |                          |                  |              | 0            |
| Revaluations             |                          |                          |                  |              | 0            |
| Depreciation             |                          |                          |                  |              | 0            |
| <b>31-Mar-11</b>         | <b>49</b>                | <b>53</b>                | <b>97</b>        | <b>10</b>    | <b>209</b>   |
| <b>Cost or Valuation</b> |                          |                          |                  |              |              |
| <b>01-Apr-11</b>         |                          |                          |                  |              | 0            |
| Additions                |                          |                          |                  |              | 0            |
| Disposals                |                          |                          |                  |              | 0            |
| Revaluations             |                          |                          |                  |              | 0            |
| Depreciation             |                          |                          |                  |              | 0            |
| <b>31-Mar-12</b>         | <b>49</b>                | <b>53</b>                | <b>97</b>        | <b>10</b>    | <b>209</b>   |

The Council's Heritage Assets have been separately identified and valued for the first time on the 2011/12 balance sheet in accordance with the IFRS based CIPFA Code of Practice which also requires the statement of the previous two year end balances (1 April 2010 and 31 March 2011). The assets were previously included under Community Assets at an historic cost of £11,000; they have now been valued at £209,000 as set out below and the revalued amount has been included on the two previous balance sheets.

The Council's accounting policies for Heritage Assets are included in note 1 on page 24.

The Authority's Heritage Assets are held by the Council in the Town Hall.

The Authority's collections of heritage assets held at the Town Hall have been accounted for and valued as follows:

- Civic Regalia – annually updated insurance valuation
- Mayoral Chain – annually updated insurance valuation
- Paintings – a collection of 56 paintings located throughout the Town Hall, valued by an annually updated insurance valuation and annual inventory check
- Other Items – include a plaster cast of Nelson and D Day plaque at Stokes Bay are held at historic cost

There is no valuation information available for the accounting periods prior to 2011/12 and the 2011/12 valuations have therefore been used for the previous balance sheet dates. Future annual valuations as above will be undertaken. It has not been practicable to disclose a summary of transactions prior to 1 April 2010.

The Authority's Heritage Assets are considered to have an indefinite life and no depreciation is therefore charged.

In addition to the Authority's Heritage Assets held in the Town Hall and included in this statement of accounts, a Gosport Museum collection is also held by the Hampshire County Council Museums Service (HCCMS). This collection is partially owned by Gosport Borough Council and partially by Hampshire County Council and although being located principally at the Gosport Museum some items are held separately in specialised storage conditions at Hampshire County Council premises outside of Gosport. No total valuation exists for this collection which is covered by the County Council's insurance arrangements.

Change in accounting policy required by the Code of Practice for Local Authority Accounting in the United Kingdom

The Code introduced a change to the treatment in accounting for Heritage Assets held by the Council as a result of which the Council is now required to separately identify Heritage Assets in the balance sheet at valuation.

Previously, Heritage Assets were included under Community Assets at historic cost

The Council's accounting policies for Heritage Assets are included in note 1 on page 24.

In applying the new accounting policy, the Council has identified that the assets that were previously held as Community Assets within Property, Plant and Equipment at £11,000 should now be recognised as Heritage Assets and measured at £209,000 with a corresponding increase in the Revaluation Reserve.

The 1 April 2010 and 31 March 2011 Balance Sheets have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are that at 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation of £209,000. Previously these were carried in Community Assets at £11,000. The Revaluation Reserve has increased by £198,000 (note XX refers). The value of £209,000 has been maintained in the 31 March 2011 and 31 March 2012 balance sheets.

In adjustments that have been are as follows. The full Balance Sheet is published on page 16.

| <b>Heritage Assets - Restatement of Opening Balance Sheet 1 April 2010</b> |                            |                    |   |
|--|----------------------------|--------------------|---|
|  | <b>Opening<br/>Balance</b> | <b>Restatement</b> | <b>Restated<br/>Opening<br/>Balance</b> |
|  | <b>01-Apr-10</b>           |                    | <b>01-Apr-10</b>                        |
|  | <b>£'000</b>               | <b>£'000</b>       | <b>£'000</b>                            |
| <b>Property, Plant &amp; Equipment</b>                                     | 183,962                    | (11)               | <b>183,951</b>                          |
| <b>Heritage Assets</b>   | 0                          | 209                | <b>209</b>                              |
| <b>All Other Net Assets</b>  | (39,864)                   |                    | <b>(39,864)</b>                         |
| <b>Usable Reserves</b>   | (4,029)                    |                    | <b>(4,029)</b>                          |
| <b>Unusable Reserves</b>   | (140,069)                  | (198)              | <b>(140,267)</b>                        |
| <b>Net</b>   | <b>0</b>                   | <b>0</b>           | <b>0</b>                                |

### 13. Investment Property

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

| 2010/11<br>£'000   | 2011/12<br>£'000 |
|--|------------------|
| 130 Direct operating expenses arising from investment property | 316              |
| (390) Rental income from investment property                   | (501)            |
| <b>(260) Net gain</b>  | <b>(185)</b>     |

The following table summarises the movement in the fair value of investment properties over the year:

The fair value of investment property held on the balance sheet has been confirmed by Capita Symonds Ltd.

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| 10,150 Balance at the start of the year                 | 11,237           |
| Additions   |                  |
| - Purchases   | -                |
| - Construction  | -                |
| 7 Subsequent expenditure                                | 24               |
| - Disposals   | -                |
| 1,028 Net gains or (losses) from fair value adjustments | (1,239)          |
| 52 Transfers to or from Property, Plant and Equipment   |                  |
| <b>11,237 Balance at the end of the year</b>            | <b>10,022</b>    |

### 14. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible assets primarily comprise purchased licenses and software.

The carrying amount of intangible assets is based on historic cost and is amortised on a straight-line basis on estimated lives of up to 10 years. The amortisation of £92,750 charged to revenue in 2011/12 (£116,000 in 2010/11) was charged to the IT Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows

| 2010/11<br>£'000 |   | 2011/12<br>£'000 |
|------------------|---|------------------|
|                  | Balance at the start of the year                    |                  |
| 1,170            | Gross carrying amount                               | 1,255            |
| (759)            | Accumulated amortisation                            | (769)            |
| <b>411</b>       | <b>Net carrying amount at the start of the year</b> | <b>486</b>       |
| 191              | Purchases   | 146              |
| (106)            | Derecognition - Gross carrying amount               | (27)             |
| 106              | Derecognition - Amortisation                        | 27               |
| (116)            | Amortisation for the year                           | (92)             |
| <b>486</b>       | <b>Net carrying amount at the end of the year</b>   | <b>540</b>       |
|                  | Comprising  |                  |
| 1,255            | Gross carrying amount                               | 1,374            |
| (769)            | Accumulated amortisation                            | (834)            |

## 15. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet.

| <b>Financial Liabilities</b> |              |            |              |              |              |
|------------------------------|--------------|------------|--------------|--------------|--------------|
| 31-Mar-10                    |              | 31-Mar-11  |              | 31-Mar-12    |              |
| Long Term                    | Current      | Long Term  | Current      | Long Term    | Current      |
| (restated)                   | (restated)   | (restated) | (restated)   |              |              |
| £'000                        | £'000        | £'000      | £'000        | £'000        | £'000        |
| (14,802)                     | (198)        | (15,599)   | (1,203)      | (70,391)     | (2,209)      |
| -                            | (73)         | -          | (84)         | -            | (156)        |
| (174)                        | (40)         | (131)      | (43)         | (89)         | (42)         |
| -                            | -            | -          | (1,430)      | -            | (2,160)      |
| (14,976)                     | (311)        | (15,730)   | (2,760)      | (70,480)     | (4,567)      |
| -                            | (1,657)      | -          | (2,065)      | -            | (2,546)      |
| (14,976)                     | (1,968)      | (15,730)   | (4,825)      | (70,480)     | (7,113)      |
| <b>Financial Assets</b>      |              |            |              |              |              |
| 1,011                        | 3,014        | -          | 4,031        | -            | -            |
| 63                           | -            | 36         | -            | 31           | -            |
| 215                          | 150          | 169        | 151          | 83           | 122          |
| 575                          | -            | 575        | -            | 575          | -            |
| -                            | -            | -          | -            | 4,912        | 26           |
| -                            | 1,454        | -          | 1,514        | -            | 754          |
| -                            | 509          | -          | -            | -            | 506          |
| <b>1,864</b>                 | <b>5,128</b> | <b>780</b> | <b>5,697</b> | <b>5,601</b> | <b>1,408</b> |

Additional long term (Public Works Loan Board) borrowing of £57 million was taken during the year to finance the settlement payment to the government for HRA Self Financing as described in note 5.

Income, Expense, Gains and Losses

| <b>31-Mar-11</b><br><b>£'000</b>   | <b>31-Mar-12</b><br><b>£'000</b> |
|--|----------------------------------|
| Financial Liabilities:   |                                  |
| 534 Interest from financial liabilities measured at amortised cost         | 633                              |
| Financial Assets:  |                                  |
| (226) Interest from loans and receivables                                  | (141)                            |
| - Interest receivable from Finance Lease                                   | (179)                            |
| (44) Discount received from debt restructuring                             | (43)                             |
| <b>264</b> Included in the Surplus or Deficit on the Provision of Services | <b>270</b>                       |

Fair Values of Liabilities and Assets

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement

| <b>Financial Liabilities</b> |                   |                        |                   |                                    |                          |
|------------------------------|-------------------|------------------------|-------------------|------------------------------------|--------------------------|
| <b>31-Mar-10</b>             |                   | <b>31-Mar-11</b>       |                   | <b>31-Mar-12</b>                   |                          |
| <b>Carrying Amount</b>       | <b>Fair Value</b> | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Carrying Amount</b>             | <b>Fair Value</b>        |
| <b>(restated)</b>            | <b>(restated)</b> | <b>(restated)</b>      | <b>(restated)</b> |                                    |                          |
| <b>£'000</b>                 | <b>£'000</b>      | <b>£'000</b>           | <b>£'000</b>      | <b>£'000</b>                       | <b>£'000</b>             |
| (15,287)                     | (15,812)          | (15,730)               | (19,441)          | Total Borrowings                   | (75,047) (80,317)        |
| (1,657)                      | (1,657)           | (2,065)                | (2,065)           | Trade Payables                     | (2,546) (2,546)          |
| <b>(16,944)</b>              | <b>(17,469)</b>   | <b>(17,795)</b>        | <b>(21,506)</b>   | <b>Total Financial Liabilities</b> | <b>(77,593) (82,863)</b> |
| <b>Financial Assets</b>      |                   |                        |                   |                                    |                          |
| 6,992                        | 6,992             | 6,477                  | 6,477             | Loans and receivables              | 7,009 7,009              |
| <b>6,992</b>                 | <b>6,992</b>      | <b>6,477</b>           | <b>6,477</b>      | <b>Total Financial Assets</b>      | <b>7,009 7,009</b>       |

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date. This commitment to pay interest below current market rates decreases the amount that the authority would have to pay if the lender requested or agreed to early repayment of the loans.

## 16. Nature and Extent of Risks Arising from Financial Instruments

The authority's activities expose it to a variety of financial risks. The key risks are:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity Risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Re-financing risk – the possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms
- Market Risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the associated risks.

The procedures for risk management are set out through a legal framework that is included in the Local Government Act 2003 and associated regulations. Compliance with the CIPFA Prudential Code, the CIPFA Treasury Management Code of Practice and Treasury Management Strategy is compulsory.

Before the start of the forthcoming financial year and in conjunction with the annual budget approval process, the Council must formally adopt the Treasury Management Code of Practice, Treasury Management Strategy and Prudential Indicators.

The Treasury Management Strategy provides written principles for overall risk management as well as written policies covering specific areas such as borrowing, debt and investment strategy. It was originally approved by Council on 2 February 2011 and subsequently updated at Council on 1 February and 24 February 2012 – the latter principally to allow for the settlement payment to the government for HRA Self Financing.

- The Authorised Limit for 2011/12 was set at £82.0m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary for 2011/12 was £81.2m. This is the expected level of debt and other long term liabilities during the year.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits were not made with banks and financial institutions unless they conformed to the following investment criteria. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down in the Council's Annual Investment Strategy which imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the authority are detailed below

- The key objectives of the Council's investment strategy are security, liquidity and yield in that order.
- In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days.
- New investments to be placed with:-
  - o The top three building societies (currently Nationwide, Coventry and Yorkshire)
  - o The Council's bank – NatWest (part of the RBS Group)
  - o The major British banks and their wholly owned subsidiaries (Royal Bank of Scotland, HSBC, Lloyds/HBOS, Barclays and Co-op)
- Short term surplus funds are to be invested in either deposit accounts as operated by the Royal Bank of Scotland and the Bank of Scotland or UK Regulated Qualifying Money Market Funds.
- A £3m limit applies with any single group other than the Council's Bank or UK Regulated Qualifying Money Market Funds
- Whilst credit ratings may be considered, undue reliance will not be placed on these. There is a clear operational difficulty arising from the current banking situation. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness and interest rates suggests short dated investments may provide lower exposure to risk.

The Council has no history of default with any of its counterparties in relation to deposits made or received. No credit limits were exceeded during the reporting period and the authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council's debtors include Council Tax, Business Rates and Housing Benefits. These are all statutory debts for which the Council is the responsible body and cannot influence who the counterparties are. Statutory debts are not classed as financial instruments and are not included below.

The following analysis summarises the council's potential maximum exposure to credit risk based on experience of default and uncollectability.

|                           | Note | Amount at<br>31 March<br>2012<br><br>£'000 | Historical<br>experience<br>of default<br><br>% | Adjustment<br>for market<br>conditions<br>at 31 March<br>2012<br>% | Estimated<br>maximum<br>exposure<br>to default<br><br>£ |
|---------------------------|------|--|---|--|---|
| Cash and cash equivalents | a    | 506  | -   | -  | -   |
| General debtors           | b    | 947  | 29%   | 29%  | 274   |
| Housing rents             | b    | 826  | 61%   | 61%  | 505   |
| Other                     | b    | 2,323                                      | 42%   | 42%  | 980   |

(a) The council does not expect any default in relation to these elements

(b) The council does not generally allow credit for customers and the estimated risks are covered by doubtful debt allowances which derive from aged debt analysis and historical experience.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds

### Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

As the authority has ready access to borrowings from the money market to cover any day to day cash flow need, and the Public Works Loans Board and money markets for access to longer term funds there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. All trade and other payables are due to be paid in less than one year.

#### Re-financing risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial liabilities as they mature. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Existing long term debt is repayable between 1 and 15 years ahead and over 45 years ahead. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period, as approved by Council in the Treasury Management Strategy,

| <b><u>Maturity Structure of Fixed Borrowings (excluding accrued interest &amp; restructuring discount)</u></b> |               |                               |  |                                |                |                  |          |
|--|---------------|-------------------------------|--|--------------------------------|----------------|------------------|----------|
| <b>01-Apr-10</b>   |               | <b>31-Mar-11</b>              |  | <b>2011/12 Approved Limits</b> |                | <b>31-Mar-12</b> |          |
| <b>Amount</b>  | <b>Amount</b> | <b>Maturing within:-</b>      |  | <b>Minimum</b>                 | <b>Maximum</b> | <b>Amount</b>    |          |
| <b>£'000</b>   | <b>£'000</b>  |                               |  | <b>%</b>                       | <b>%</b>       | <b>£'000</b>     | <b>%</b> |
| 198  | 1,203         | Up to 1 year                  |  | 0                              | 80             | 4,370            | 5.80%    |
| 1,203  | 2,209         | Over 1 but not over 2 years   |  | 0                              | 80             | 2,215            | 3.00%    |
| 6,646  | 7,665         | Over 2 but not over 5 years   |  | 0                              | 80             | 6,684            | 8.90%    |
| 4,953  | 1,725         | Over 5 but not over 10 years  |  | 0                              | 40             | 12,491           | 16.70%   |
| -  | -             | Over 10 but not over 15 years |  | 0                              | 70             | 15,000           | 20.10%   |
| -  | -             | Over 15 but not over 20 years |  | 0                              | 70             | -                | -        |
| -  | -             | Over 20 but not over 25 years |  | 0                              | 70             | -                | -        |
| -  | -             | Over 25 but not over 30 years |  | 0                              | 70             | -                | -        |
| -  | -             | Over 30 but not over 35 years |  | 0                              | 70             | -                | -        |
| -  | -             | Over 35 but not over 40 years |  | 0                              | 70             | -                | -        |
| -  | -             | Over 40 but not over 45 years |  | 0                              | 70             | -                | -        |
| 2,000  | 4,000         | Over 45 years                 |  | 0                              | 70             | 34,000           | 45.50%   |
| <b>15,000</b>  | <b>16,802</b> |                               |  |                                |                | <b>74,760</b>    |          |

## Market Risk

### Interest Rate Risk:

Movement in interest rates can have a complex impact on an authority, depending on the complexity and policies of treasury management activity employed. For instance, a rise in interest rates would have the following effects

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances)
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances)

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance, subject to influences from Government grants (i.e. HRA). Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council's Treasury Management Strategy (approved in February 2011 and 2012 and reported on in September 2011 currently states

- All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act) and variable rate loans may be considered. There may also be opportunities to borrow from other public bodies

- All short term money market loans (less than 365 days) will be raised through dealings using brokers at the discretion of the Borough Treasurer, including
  - o Garban Harlow Ueda Limited,
  - o Tradition UK Limited
  - o ICAP
  - o R P Martins
- Further funds may be raised directly (ie from other public bodies) without using intermediary brokers or the Council's bank.
- In order to limit interest rate exposure all investments other than short term surplus funds are to be fixed rate transactions. No Investments are to exceed 3 years although most will not exceed 364 days.

so while the Council has some risk exposure to interest rate movements, this is limited to the effect that interest rate movements have on the marketplace generally when placing investments or raising loans in relation to the annual budget. Cash flows and interest rate changes are actively monitored.

If average interest rates in 2011/12 had been 1% higher (with all other variables constant) the financial effect would have been an additional £31,500 interest receivable and £11,600 payable. The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. (£105,000 in 2010/11).

#### **Fair Value of Assets and Liabilities carried at Amortised Cost**

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Long Term Borrowing (PWLb) is calculated by reference to the premature repayment set of rates in force 31 March
- Long Term Investments: using applicable discount rates for individual loans relative to the balance sheet date
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount

## **17. Inventories**

| <b>01-Apr-10</b> | <b>31-Mar-11</b> |              | <b>31-Mar-12</b> |
|------------------|------------------|--------------|------------------|
| <b>£'000</b>     | <b>£'000</b>     |              | <b>£'000</b>     |
| 11               | -                | - Stationery | -                |
| 25               | 5                | Nursery      | -                |
| <b>36</b>        | <b>5</b>         |              | <b>0</b>         |

## 18. Debtors

### Long Term Debtors

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                | 31-Mar-12<br>£'000 |
|--------------------|--------------------|--------------------------------|--------------------|
| 858                | 782                | Other Entities and Individuals | 5,601              |
| <b>858</b>         | <b>782</b>         |                                | <b>5,601</b>       |

2011/12 includes £4.912 million in respect of the finance lease entered into with the Gosport Ferry Company for the new ferry landing stage.

### Short Term Debtors (net of allowances for doubtful debts)

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                | 31-Mar-12<br>£'000 |
|--------------------|--------------------|--------------------------------|--------------------|
| 2,776              | 2,311              | Central Government Bodies      | 2,381              |
| 2,083              | 1,942              | Other Local Authorities        | 2,176              |
| 4,806              | 4,720              | Other Entities and Individuals | 2,337              |
| <b>9,665</b>       | <b>8,973</b>       |                                | <b>6,894</b>       |

## 19. Cash and Cash Equivalents

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                   | 31-Mar-12<br>£'000 |
|--------------------|--------------------|-----------------------------------|--------------------|
| 1,287              |                    | 15 Money Market Funds             | 507                |
| -                  |                    | - Call Accounts                   | 552                |
| 5                  |                    | 6 Cash imprests / cash in hand    | 66                 |
| (783)              | (1,451)            | Bank Overdraft (Grouped accounts) | (619)              |
| <b>509</b>         | <b>(1,430)</b>     |                                   | <b>506</b>         |

## 20. Creditors

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                | 31-Mar-12<br>£'000 |
|--------------------|--------------------|--------------------------------|--------------------|
| (4)                | (238)              | Central Government Bodies      | (602)              |
| -                  | (545)              | Other Local Authorities        | (368)              |
| (2,140)            | (1,866)            | Other Entities and Individuals | (2,764)            |
| <b>(2,144)</b>     | <b>(2,649)</b>     |                                | <b>(3,734)</b>     |

## 21. Provisions

The Council has no provisions.

An allowance for doubtful debts is included within note 18.

## 22. Usable Reserves

Usable reserves are reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure). The balances movements and transfers on usable reserves are shown below:

|  | 2010/11            |                          |                           | 2011/12            |                          |                           | 31-Mar-12<br>£'000 |
|--|--------------------|--------------------------|---------------------------|--------------------|--------------------------|---------------------------|--------------------|
|  | 01-Apr-10<br>£'000 | Transfers<br>In<br>£'000 | Transfers<br>Out<br>£'000 | 31-Mar-11<br>£'000 | Transfers<br>In<br>£'000 | Transfers<br>Out<br>£'000 |                    |
| <b>Revenue</b>                         |                    |                          |                           |                    |                          |                           |                    |
| <b>General Fund Balance</b>            | <b>(890)</b>       |                          |                           | <b>(890)</b>       |                          |                           | <b>(890)</b>       |
| <b>Earmarked General Fund Reserves</b> |                    |                          |                           |                    |                          |                           |                    |
| Revenue Financing Reserve              | (1,561)            | (366)                    | 1,282                     | (645)              | (631)                    | 611                       | (665)              |
| Civic                                  | (1)                | 0                        | 0                         | (1)                |                          | 1                         | 0                  |
| Royan Twinning Fund                    | (4)                | (1)                      | 0                         | (5)                |                          |                           | (5)                |
| Museum Purchases                       | (10)               | 0                        | 0                         | (10)               |                          | 10                        | 0                  |
| Open Spaces maintenance                | (93)               | 0                        | 37                        | (56)               |                          | 7                         | (49)               |
| A32 Bus Shelter maintenance            | (30)               | 0                        | 0                         | (30)               |                          |                           | (30)               |
| Cherque Farm open space                | (208)              | (7)                      | 0                         | (215)              |                          | 26                        | (189)              |
| Priddys Play Area maintenance          | 0                  | (124)                    | 0                         | (124)              |                          | 19                        | (105)              |
| Greenskills Apprenticeship             | 0                  | (4)                      | 0                         | (4)                |                          | 4                         | 0                  |
| HPDG usable reserve                    | 0                  | (70)                     | 0                         | (70)               |                          | 12                        | (58)               |
| Regional Housing Grant                 | (216)              | (205)                    | 53                        | (368)              |                          | 209                       | (159)              |
| LPSA2 revenue grant                    | (175)              | 0                        | 175                       | 0                  |                          |                           | 0                  |
| English Heritage Outreach              | (4)                | 4                        | 0                         | 0                  |                          |                           | 0                  |
| Education Fund                         | (4)                | 0                        | 0                         | (4)                |                          |                           | (4)                |
| Risk Management                        | (3)                | 0                        | 0                         | (3)                |                          | 3                         | 0                  |
| Business Growth Incentive Grant        | (241)              | 0                        | 188                       | (53)               |                          | 31                        | (22)               |
| Building Control Partnership           | (57)               | 0                        | 0                         | (57)               | (10)                     |                           | (67)               |
| New Homes Bonus Grant                  | 0                  |                          |                           | 0                  | (18)                     |                           | (18)               |
| Preventing Repossessions               | 0                  |                          |                           | 0                  | (53)                     |                           | (53)               |
|  | <b>(2,607)</b>     | <b>(773)</b>             | <b>1,735</b>              | <b>(1,645)</b>     | <b>(712)</b>             | <b>933</b>                | <b>(1,424)</b>     |
| <b>Housing Revenue Account</b>         |                    |                          |                           |                    |                          |                           |                    |
| Housing Revenue Account                | <b>(358)</b>       | <b>(81)</b>              | <b>0</b>                  | <b>(439)</b>       | <b>(164)</b>             |                           | <b>(603)</b>       |
| <b>Capital</b>                         |                    |                          |                           |                    |                          |                           |                    |
| Capital Receipts Reserve               | (65)               | (352)                    | 352                       | (65)               | (466)                    | 466                       | (65)               |
| Capital Grants Unapplied               | (109)              | 0                        | 109                       | 0                  |                          |                           | 0                  |
|  | <b>(174)</b>       | <b>(352)</b>             | <b>461</b>                | <b>(65)</b>        | <b>(466)</b>             | <b>466</b>                | <b>(65)</b>        |
| <b>Total Usable Reserves</b>           | <b>(4,029)</b>     | <b>(1,206)</b>           | <b>2,196</b>              | <b>(3,039)</b>     | <b>(1,342)</b>           | <b>1,399</b>              | <b>(2,982)</b>     |

The purpose of each of the earmarked reserves held at 31 March 2012 is shown below:

#### General Fund balance

This represents the council's working balance and is effectively a general reserve that is available for unforeseen events and to help stabilise annual fluctuations in Council Tax levels.

#### Revenue Financing Reserve (RFR)

A reserve available for general use, although it is particularly targeted at

- assisting in achieving efficiencies by providing funding for spend-to-save initiatives
- helping to ensure that variations in annual maintenance requirements can be adequately financed
- reducing exposure to risk by helping to underwrite uninsurable risks and by saving premiums where self insurance is undertaken

It is considered that maintaining a viable RFR is an essential element for improved management of the Council's finances and in order to achieve this, the approved Council policy is that the RFR receives General Fund Contributions from year end savings, a base budget contribution and Council Tax Collection Fund surpluses (subject to the working balance first being maintained at an appropriate level). In 2011/12 the Risk Management, Regalia, Museum Purchases and Greenskills Apprenticeship reserves totalling £17,400 were absorbed into the RFR.

#### Open Spaces, Play Areas and Bus Shelter reserves

The Open Spaces maintenance, Bus Shelter maintenance, Cherque Farm open space and Priddys Play Area maintenance reserves are all earmarked sums for contributing to specific service revenue expenditure.

#### Regional Housing Grant

A general purpose Housing grant that may be used for both Housing General Fund and Housing Revenue Account services.

#### Housing Revenue Account

The statutory ringfenced account for the provision of Housing services providing a working balance and general reserve for unforeseen events.

#### Other Usable reserves

The remaining revenue reserves are utilised in the provision of specific council services.

#### Capital Receipts reserve

The Capital Receipts reserve may only be utilised to fund capital expenditure. The balance of £65,000 at 31 March 2011 and 2012 is in respect of the sale of Camden Allotments and must be applied in accordance with the provisions of Section 32 of the Smallholdings and Allotments Act 1908.

### 23. Unusable Reserves

| 01-Apr-10        | 31-Mar-11        |  | 31-Mar-12       |
|------------------|------------------|--|-----------------|
| £'000            | £'000            |  | £'000           |
| (2,066)          | (1,721)          | Revaluation Reserve                                  | (3,247)         |
| (182,123)        | (138,948)        | Capital Adjustment Account                           | (72,891)        |
| (638)            | (612)            | Deferred Capital Receipts                            | (5,696)         |
| 44,320           | 31,430           | Net Pension Reserve                                  | 40,230          |
| 96               | 55               | Collection Fund Adjustment Account                   | (8)             |
| 144              | 138              | Short-term Accumulating Compensated Absences Account | 177             |
| <b>(140,267)</b> | <b>(109,658)</b> |  | <b>(41,435)</b> |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment.. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account

| <b>2010/11<br/>(restated)<br/>£'000</b>  | <b>2011/12<br/>£'000</b> |
|--|--------------------------|
| <b>(2,066)</b> Balance at 1 April  | <b>(1,721)</b>           |
| (29) Upward revaluation of assets  | (1,604)                  |
| 261 Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | -                        |
| Surplus or deficit on revaluation of non-current assets not posted to  |                          |
| <b>232</b> the Surplus or Deficit on the Provision of Services   | <b>(1,604)</b>           |
| 113 Difference between fair value depreciation and historical cost depreciation  | 78                       |
| <b>113</b> Amount written off to the Capital Adjustment Account  | <b>78</b>                |
| <b>(1,721)</b> Balance at 31 March   | <b>(3,247)</b>           |

The opening balance for 2010/11 has been restated from £1,680k to £2,066k, to reflect (i) a disclosure correction that contras with the Capital Adjustment Account of £188,000 and (ii) the valuation of Heritage Assets in the opening balance sheet of £198,000 (note 12 refers).

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2010/11<br>(restated)<br>£'000 |  | 2011/12<br>£'000 |
|--------------------------------|--|------------------|
| <b>(182,123)</b>               | Balance at 1 April   | <b>(138,948)</b> |
|                                | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                             |                  |
| 44,551                         | Charges for depreciation and impairment of noncurrent assets   | 2,054            |
|                                | - Revaluation losses on Property, Plant and Equipment  | 1,247            |
| 116                            | Amortisation of intangible assets  | 92               |
| 1,295                          | Revenue expenditure funded from capital under statute  | 988              |
| 438                            | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 4,843            |
| <b>46,400</b>                  |  | <b>9,224</b>     |
| (113)                          | Adjusting amounts written out of the Revaluation Reserve   | (78)             |
| <b>46,287</b>                  | <b>Net written out amount of the cost of non-current assets consumed in the year</b>   | <b>9,146</b>     |
|                                | Capital financing applied in the year:   |                  |
| (84)                           | Use of the Capital Receipts Reserve to finance new capital expenditure   | (288)            |
| (1,533)                        | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | (1,147)          |
| (109)                          | Application of grants to capital financing from the Capital Grants Unapplied Account   | -                |
| (358)                          | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  | (388)            |
|                                | - Capital expenditure charged against the General Fund and HRA balances  | (29)             |
|                                | - Settlement Payment to the Government for HRA Self Financing  | 57,029           |
|                                | - Refinancing of Capital Debtor from Borrowing   | 495              |
| <b>(2,084)</b>                 |  | <b>55,672</b>    |
| <b>(1,028)</b>                 | <b>Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement</b>                  | <b>1,239</b>     |
| <b>(138,948)</b>               | <b>Balance at 31 March</b>   | <b>(72,891)</b>  |

The opening balance for 2010/11 has been restated from £182,311k to £182.123k to reflect a disclosure correction that contras with the Capital Adjustment Account of £188,000.

A capital debtor for £495,000 in respect of design fees has been refinanced from borrowing in 2011/12 following the completion and agreement of leases for the landing stage scheme.

### Deferred Capital Receipts

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

During 2011/12, the Council disposed of the Gosport Ferry Landing Stage by way of a finance lease (£4,938 million) and agreed the deferred receipt of a capital payment from Miland Properties (£0.152 million).

| 2010/11<br>£'000   | 2011/12<br>£'000 |
|--|------------------|
| (638) Balance at 1 April   | (612)            |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (5,109)          |
| 26 Transfer to the Capital Receipts Reserve upon receipt of cash   | 25               |
| <b>(612) Balance at 31 March</b>   | <b>(5,696)</b>   |

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2010/11<br>£'000   | 2011/12<br>£'000 |
|--|------------------|
| 44,320 Balance at 1 April  | 31,430           |
| (4,460) Actuarial (gains) or losses on pensions assets and liabilities   | 8,210            |
| (6,480) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 2,320            |
| Employer's pensions contributions and direct payments to   |                  |
| (1,950) pensioners payable in the year   | (1,730)          |
| <b>31,430 Balance at 31 March</b>  | <b>40,230</b>    |

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| 96 Balance at 1 April   | 55               |
| (41) Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (63)             |
| <b>55 Balance at 31 March</b>   | <b>(8)</b>       |

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| 144 Balance at 1 April  | 138              |
| (144) Settlement or cancellation of accrual made at the end of the preceding year | (138)            |
| 138 Amounts accrued at the end of the current year                                | 177              |
| <b>138 Balance at 31 March</b>  | <b>177</b>       |

## 24. Reconciliation with amounts reported internally

The purpose of this note is to reconcile the financial information reported internally to that reported in the Comprehensive Income and Expenditure Statement.

Decisions about resource allocation – particularly budget approval - are taken by the council's elected members at full council and boards on the basis of the budget being presented on a Board and Service basis in accordance with the Council's constitution.

The budget includes all financial costs and income estimated to affect the Council's overall finances while items such as the cost of retirement benefits and asset revaluations and impairments are excluded from the budget preparation and monitoring processes. These items - while being included in the Comprehensive Income and Expenditure Statement in the Statement of Accounts at year end – do not impact on the council tax levy.

Resource allocation and control during the financial year is by exception reporting to Council management team and leadership with further, generally quarterly, reports to Policy and Organisation board as necessary. These reports are presented as a list of variances summarised by Board.

The outturn position for 2011/12 is being reported to members in the same format as the approved budget. Reconciling the approved and reported budgets - which provide the basis of budget monitoring and control and resource allocation - to that shown in the financial statements is complicated because as outlined above certain income and expenditure items are shown in different ways and in different places between the two documents. Some items have a financial impact on the council's finances and some do not.

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified in the Service Reporting Code of Practice (SerCOP).

The reconciliations below show the movement between the Board based reports to members for 2010/11 and 2011/12 and the Comprehensive Income and Expenditure and Movement in Reserves statements in the Statement of Accounts.

The Code also requires a breakdown of the reporting segments by type of expenditure (ie employees, premises etc.). A full gross subjective analysis of income and expenditure is also shown for 2010/11 and 2011/12.

| <b>2010/11</b>              | <b>2011/12</b> |
|-----------------------------|----------------|
| <b>£'000</b>                | <b>£'000</b>   |
| 11,344 Employees            | 10,339         |
| 1,937 Premises              | 1,039          |
| 218 Transport               | 204            |
| 4,953 Supplies and Services | 5,203          |
| 4,641 Third Party Payments  | 3,739          |
| 29,357 Miscellaneous        | 31,233         |
| <b>52,450</b>               | <b>51,757</b>  |
| 11,540 Support Services     | 10,091         |
| 1,653 Capital / Financing   | 1,377          |
| (65,643) Income             | (63,225)       |
| <b>0</b>                    | <b>0</b>       |

| 2011/12   | GF Board Structure      | Other Operating Expenditure | Financing & Investment Income & Expenditure | Taxation & Non Specific Grant Income | Movement in reserves, Collection Fund deficit | SerCOP Cost of Services |                     |               |                 |
|---|-------------------------|-----------------------------|---|--------------------------------------|---|-------------------------|---------------------|---------------|-----------------|
|   | £'000                   | £'000                       | £'000                                       | £'000                                | £'000   | £'000                   |                     |               |                 |
| Community Economic Development                  | 7,059                   | 0                           | 185   | 0                                    | 0   | 7,244                   |                     |               |                 |
| Policy & Organisation                           | 1,056                   | 0                           | (60)  | 0                                    | 0   | 996                     |                     |               |                 |
|   | 2,590                   | 723                         | (2,056)                                     | 342                                  | 3,245   | 4,844                   |                     |               |                 |
|   | <b>10,705</b>           | <b>723</b>                  | <b>(1,931)</b>                              | <b>342</b>                           | <b>3,245</b>                                  | <b>13,084</b>           |                     |               |                 |
| Reserves  | 2                       | 0                           | 0   | 0                                    | (2)   | 0                       |                     |               |                 |
|   | <b>10,707</b>           | <b>723</b>                  | <b>(1,931)</b>                              | <b>342</b>                           | <b>3,243</b>                                  | <b>13,084</b>           |                     |               |                 |
|   | <b>SerCOP Structure</b> |                             |   |                                      |   |                         | <b>General Fund</b> | <b>HRA</b>    | <b>CI&amp;E</b> |
|   | £'000                   | £'000                       | £'000                                       | £'000                                | £'000   | £'000                   | £'000               | £'000         | £'000           |
| Cost of Services                                | 13,084                  | 0                           | 0   | 0                                    | 0   | 13,084                  | 57,424              | 70,508        |                 |
| Other Operating Expenditure                     | 0                       | (723)                       | 0   | 0                                    | 0   | (723)                   | 168                 | (555)         |                 |
| Financing and Investment income and Expenditure | 0                       | 0                           | 1,933                                       | 0                                    | 0   | 1,933                   | 381                 | 2,314         |                 |
| Taxation and Non Specific Grant Income          | 0                       | 0                           | 0   | (11,113)                             | 0   | (11,113)                | 0                   | (11,113)      |                 |
| Surplus or Deficit on the Provision of Services | <b>13,084</b>           | <b>(723)</b>                | <b>1,933</b>                                | <b>(11,113)</b>                      | <b>0</b>                                      | <b>3,181</b>            | <b>57,973</b>       | <b>61,154</b> |                 |

| <b>2010/11</b>                                  | <b>GF Board Structure</b> | <b>Other Operating Expenditure</b> | <b>Financing &amp; Investment Income &amp; Expenditure</b> | <b>Taxation &amp; Non Specific Grant Income</b> | <b>Movement in reserves, Collection Fund deficit</b> | <b>BVACOP Cost of Services</b> |                         |                     |               |                 |
|---|---------------------------|------------------------------------|--|---|--|--------------------------------|-------------------------|---------------------|---------------|-----------------|
|   | <b>£'000</b>              | <b>£'000</b>                       | <b>£'000</b>   | <b>£'000</b>                                    | <b>£'000</b>   | <b>£'000</b>                   |                         |                     |               |                 |
| Community & Environment                         | 7,857                     |                                    | 260  |   | 29   | 8,146                          |                         |                     |               |                 |
| Housing   | 622                       |                                    |  |   |  | 622                            |                         |                     |               |                 |
| Policy & Organisation                           | 5,277                     | (155)                              | (244)  | 511   | (8,382)  | (2,993)                        |                         |                     |               |                 |
|   | <b>13,757</b>             | <b>(155)</b>                       | <b>16</b>  | <b>511</b>                                      | <b>(8,353)</b>                                       | <b>5,776</b>                   |                         |                     |               |                 |
| Reserves  | (913)                     |                                    |  |   | 1,040  | 127                            |                         |                     |               |                 |
|   | <b>12,844</b>             | <b>(155)</b>                       | <b>16</b>  | <b>511</b>                                      | <b>(7,313)</b>                                       | <b>5,903</b>                   |                         |                     |               |                 |
|   |                           |                                    |  |   |  |                                | <b>BVACOP Structure</b> | <b>General Fund</b> | <b>HRA</b>    | <b>CI&amp;E</b> |
|   | <b>£'000</b>              | <b>£'000</b>                       | <b>£'000</b>   | <b>£'000</b>                                    | <b>£'000</b>   | <b>£'000</b>                   | <b>£'000</b>            | <b>£'000</b>        | <b>£'000</b>  | <b>£'000</b>    |
| Cost of Services                                | 5,776                     |                                    |  |   |  | 5,776                          | 5,776                   | 42,590              | 48,366        |                 |
| Other Operating Expenditure                     |                           | 155                                |  |   |  | 155                            | 155                     | 199                 | 354           |                 |
| Financing and Investment income and Expenditure |                           |                                    | (16)   |   |  | (16)                           | (16)                    | 492                 | 476           |                 |
| Taxation and Non Specific Grant Income          |                           |                                    |  | (13,355)  | (40)   | (13,395)                       | (13,395)                | 0                   | (13,395)      |                 |
| Surplus or Deficit on the Provision of Services | <b>5,776</b>              | <b>155</b>                         | <b>(16)</b>  | <b>(13,355)</b>                                 | <b>(40)</b>  | <b>(7,480)</b>                 | <b>(7,480)</b>          | <b>43,281</b>       | <b>35,801</b> |                 |

## 25. Agency Services

The Council's agency agreement for the provision of highways maintenance and management was terminated by Hampshire County Council on 1 May 2002 and the service was then funded and managed directly by the County although staff remained within the Borough Council offices. The Borough Council retained the agencies for Traffic Management and Development Control with the County Council reimbursing the Borough for this work and making a contribution towards administration costs.

The Traffic Management and Development Control agreement was terminated on 31 March 2009 with future highways management and maintenance being dealt with directly by Hampshire County Council.

A contribution continues to be paid by the County Council towards treework and grasscutting (environmental maintenance) and this is summarised below.

| <b>31-Mar-11</b>                            | <b>31-Mar-12</b> |
|---|------------------|
| <b>£'000</b>                                | <b>£'000</b>     |
| 30 Treework                                 | 33               |
| 106 Grasscutting                            | 74               |
| (138) Hampshire County Council contribution | (141)            |
| <b>(2)</b>                                  | <b>(34)</b>      |

## 26. Members' Allowances

The Authority paid the following amounts to members of the council during the year

| 2010/11<br>£000 | 2011/12<br>£000 |
|-----------------|-----------------|
| 210 Allowances  | 224             |
| 8 Expenses      | 6               |
| <b>218</b>      | <b>230</b>      |

## 27. Officers Remuneration

| Number of employees<br>2010/11 | Left during<br>2010/11 | The number of employees (excluding senior officers which are disclosed individually in separate tables) whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were: | Number of employees<br>2011/12 | Left during<br>2011/12 |
|--------------------------------|------------------------|--|--------------------------------|------------------------|
|                                |                        | Remuneration band  |                                |                        |
| 1                              | 1                      | £50,000 - £54,999  | 6                              | 3                      |
| 2                              | 2                      | £55,000 - £59,999  | 3                              | 2                      |
| 1                              | 1                      | £60,000 – £64,999  | -                              | -                      |
| -                              | -                      | £65,000 - £69,999  | 2                              | 2                      |

| <b>2010/11 Senior Officers emoluments - Salary is more than £50,000 but less than £150,000 per year</b> |       |                             |          |                    |                                 |                  |  |                       |  |   |
|---|-------|-----------------------------|----------|--------------------|---------------------------------|------------------|--|-----------------------|--|---|
| Post Title  | Notes | Salary Including Allowances | Bonuses  | Expense Allowances | Compensation for loss of office | Benefits in Kind | Total Remuneration excluding pension contributions 2010/11 | Pension Contributions | Total Remuneration including pension contributions 2010/11 |   |
|   |       | £                           | £        | £                  | £                               | £                | £  | £                     | £  | £ |
| Chief Executive   |       | 92,165                      | -        | -                  | -                               | 568              | 92,733   | 13,074                | 105,807  |   |
| Deputy Chief Executive & Borough Treasurer  |       | 82,251                      | -        | -                  | -                               | -                | 82,251   | 11,767                | 94,018   |   |
| Borough Solicitor   | 1     | 62,587                      | -        | -                  | -                               | -                | 62,587   | 10,498                | 73,085   |   |
| Director of Economic Regeneration   | 2     | 26,331                      | -        | -                  | 80,383                          | -                | 106,714  | 3,753                 | 110,467  |   |
| Financial Services Manager  |       | 65,350                      | -        | -                  | -                               | -                | 65,350   | 9,338                 | 74,688   |   |
| Corporate Services Manager  | 3     | 18,610                      | -        | -                  | -                               | -                | 18,610   | 2,686                 | 21,296   |   |
| Housing Services Manager  |       | 59,832                      | -        | -                  | -                               | -                | 59,832   | 8,608                 | 68,440   |   |
| Leisure Services Manager  |       | 64,779                      | -        | -                  | -                               | -                | 64,779   | 9,338                 | 74,117   |   |
| Environmental Services Manager  |       | 59,852                      | -        | -                  | -                               | -                | 59,852   | 8,608                 | 68,460   |   |
|   |       | <b>531,757</b>              | <b>0</b> | <b>0</b>           | <b>80,383</b>                   | <b>568</b>       | <b>612,708</b>   | <b>77,670</b>         | <b>690,378</b>   |   |

1. The Borough Solicitor's remuneration was based on 34 hours per week. The full time equivalent salary is £69,468. Returning Officer fees of £10,444 are included in the total.

2. The Director of Economic Regeneration post became redundant 15 August 2010. The whole time equivalent salary is £69,280.

3. The Corporate Services Officer Post was deleted 14 July 2010. The full time equivalent salary is £64,404.

| <b>2011/12 Senior Officer emoluments - Salaries more than £50,000 but less than £150,000 per year</b> |       |                               |          |                    |                                 |                  |  |                       |  |   |
|---|-------|-------------------------------|----------|--------------------|---------------------------------|------------------|--|-----------------------|--|---|
| Post Title  | Notes | Salary (Including Allowances) | Bonuses  | Expense Allowances | Compensation for loss of office | Benefits in Kind | Total Remuneration excluding pension contributions 2011/12 | Pension Contributions | Total Remuneration including pension contributions 2011/12 |   |
|   |       | £                             | £        | £                  | £                               | £                | £  | £                     | £  | £ |
| Chief Executive   |       | 91,878                        | -        | -                  | -                               | 466              | 92,344   | 11,812                | 104,156  |   |
| Deputy Chief Executive & Borough Treasurer  |       | 81,794                        | -        | -                  | -                               | -                | 81,794   | 10,631                | 92,425   |   |
| Borough Solicitor   | 1     | 69,472                        | -        | -                  | -                               | -                | 69,472   | 9,484                 | 78,956   |   |
| Financial Services Manager  |       | 65,124                        | -        | -                  | -                               | -                | 65,124   | 8,436                 | 73,560   |   |
| Housing Services Manager  | 2     | 47,358                        | -        | -                  | -                               | -                | 47,358   | 6,204                 | 53,562   |   |
| Leisure Services Manager  | 3     | 48,760                        | -        | -                  | -                               | -                | 48,760   | 6,388                 | 55,148   |   |
| Environmental Services Manager  | 4     | 17,913                        | -        | -                  | 33,136                          | -                | 51,049   | 2,347                 | 53,396   |   |
| Community and Customer Services Manager   | 5     | 17,367                        | -        | -                  | -                               | -                | 17,367   | 2,275                 | 19,642   |   |
|   |       | <b>439,666</b>                | <b>0</b> | <b>0</b>           | <b>33,136</b>                   | <b>466</b>       | <b>473,268</b>   | <b>57,577</b>         | <b>530,845</b>   |   |

1. The Borough Solicitor worked 34 hours per week to 31st December 2011. The full time equivalent salary is £70,854. Returning Officer fees of £2,201 are included in the total.

2. The Housing Services Managers post became vacant on 31st December 2011. The full time equivalent salary is £63,144.

3. The Leisure Services Manager retired on 31st December 2011 and consequently the post has been deleted. The full time equivalent salary is £60,624.

4. The Environmental Services Managers post became redundant on 30th June 2011. The full time equivalent salary is £60,624.

5. The Community and Customer Services manager post was created on 1st January 2012. The full time equivalent salary is £69,468.

| Exit package cost band (including special repayments) | Number of compulsory redundancies |           | Number of other departures agreed |          | Total number of exit packages by cost band |           | Total cost of exit packages in each band |                  |
|---|-----------------------------------|-----------|-----------------------------------|----------|--|-----------|--|------------------|
|   | 2010/11                           | 2011/12   | 2010/11                           | 2011/12  | 2010/11                                    | 2011/12   | 2010/11<br>£'000                         | 2011/12<br>£'000 |
| £0 - £20,000  | 11                                | 13        | 6                                 | 0        | 17   | 13        | 148                                      | 152              |
| £20,001 - £40,000                                     | 4                                 | 6         | 1                                 | 1        | 5  | 7         | 186                                      | 215              |
| £40,001 - £60,000                                     | 0                                 | 3         | 2                                 | 0        | 2  | 3         | 108                                      | 135              |
| £60,001 - £80,000                                     | 1                                 | 1         | 3                                 | 1        | 4  | 2         | 290                                      | 141              |
| £80,001 - £100,000                                    |                                   | 2         |                                   | 0        | 0  | 2         | 0  | 167              |
| £100,001 - £150,000                                   |                                   | 0         |                                   | 0        | 0  | 0         | 0  | 0                |
|   | <b>16</b>                         | <b>25</b> | <b>12</b>                         | <b>2</b> | <b>28</b>                                  | <b>27</b> | <b>732</b>                               | <b>810</b>       |

The Authority terminated the contracts of 27 employees in 2011/12 (28 in 2010/11), incurring liabilities of £810,000 (£732,000 in 2010/11). This includes both payments to the Local Government Pension Scheme and severance payments and has been largely financed by contributions from the Revenue Financing Reserve in recognition of substantial future salary savings

## 28. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and non-audit services provided by the Council's external auditors.

| 2010/11<br>£000  | 2011/12<br>£000 |
|--|-----------------|
| Fee payable to the Audit Commission with regard to external audit services carried out by appointed auditors |                 |
| 126 External audit services  | 107             |
| 57 Certification of grant claims and returns   | 50              |
| <b>183</b>   | <b>157</b>      |

## 29. Grant Income

The Authority credited the grants and contributions shown in the table on page 69 to the Comprehensive Income and Expenditure Statement in 2011/12

In addition to the grants received and / or applied in 2011/12 which were not subject to any outstanding conditions and which are reflected in the table below, the council also holds £1.994 million as at 31 March 2012 (£2.518 million as at 31 March 2011) of developers' contributions which are shown as Grants and Contributions Receipts in Advance in the Balance Sheet. These grants and contributions are categorised as liabilities because they are subject to conditions as to the nature and timescale of their use and could therefore be returnable. The Council manages these sums to mitigate that possibility and the sums are available to spend on appropriate capital schemes – at which point the liability will cease and the sums will be accounted for through the Comprehensive Income and Expenditure statement. An analysis of these sums is shown below

| <b>01-Apr-10</b> | <b>31-Mar-11</b> | <b>Grants and Contributions Receipts in Advance</b> | <b>31-Mar-12</b> |
|------------------|------------------|---|------------------|
| <b>£'000</b>     | <b>£'000</b>     |   | <b>£'000</b>     |
| (2,008)          | (1,208)          | Affordable Housing                                  | (569)            |
| (1,313)          | (1,167)          | Open Spaces and Play Areas                          | (1,204)          |
| (137)            | (137)            | Nimrod Drive Footpath                               | (137)            |
| (101)            |                  | HPDG Capital  |                  |
| (4)              | (4)              | Bus Shelters  | (4)              |
| (22)             | (2)              | Other grants and contributions                      | (80)             |
| <b>(3,585)</b>   | <b>(2,518)</b>   |   | <b>(1,994)</b>   |

| 2010/11<br>£000   | Grant Income                               | 2011/12<br>£000 |
|---|--|-----------------|
| <b>Included in Taxation and Non Specific Grant Income</b>                               |  |                 |
| <u>Non-Ringfenced Government Grants</u>   |  |                 |
| <u>Department for Communities and Local Government:</u>                                 |  |                 |
| (6,372)   | Distribution from NNDR Pool                | (3,935)         |
| (925)   | Revenue Support Grant                      | (1,216)         |
| (86)  | Area Based Grant                           |                 |
|   | Council Tax Freeze Grant                   | (140)           |
| <b>(7,383)</b>  |  | <b>(5,291)</b>  |
| <u>Capital Grants and Contributions</u>   |  |                 |
| (241)   | Developers Contributions - Open Spaces     | (87)            |
| (101)   | Housing and Planning and Development Grant |                 |
| (55)  | HCC / PUSH - Waterfront Masterplan         |                 |
|   | Football Stadia Improvement Fund           | (74)            |
|   | Groundwork                                 | (39)            |
| (26)  | Other Contributions                        | (2)             |
| <b>(423)</b>  |  | <b>(202)</b>    |
| <b>Service Specific Revenue Grants and Contributions (included in cost of services)</b> |  |                 |
| <u>Department for Work and Pensions</u>   |  |                 |
| (744)   | HB / CTB Administration                    | (728)           |
| (30,402)  | HB / CTB Subsidy                           | (33,358)        |
| <u>Developers Contributions (Section 106)</u>   |  |                 |
| (800)   | Affordable housing                         | (639)           |
| <u>Environment Agency</u>   |  |                 |
| (34)  | Coast Protection                           | (41)            |
| <u>Department for Communities and Local Government</u>                                  |  |                 |
| (274)   | Disabled Facilities Grant                  | (265)           |
| (45)  | Free Swimming Grant                        |                 |
| (205)   | Enhanced Bus Pass Scheme                   |                 |
| (83)  | NNDR Cost of Collection                    | (82)            |
|   | Local Services Support Grant               | (87)            |
|   | New Homes Bonus Grant                      | (18)            |
|   | Preventing Repossessions Fund              | (53)            |
| <b>(32,587)</b>   |  | <b>(35,271)</b> |

### 30. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (eg council tax bills, housing benefits). Grants received from government departments are included in note 29.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in note 26. As approved by Policy and Organisation Board in 2003, Councillor Hook and Mrs Hook entered into an agreement in 2004/05 with the council for the rent and insurance of office accommodation in their ownership for the provision of council services. The agreement was made in full compliance with the Council's standing orders and with proper declaration of interest. The value of rental payments from 1 April 2011 to 31 March 2012 was £7,980. The member's shop also supplied and fitted carpeting to interview rooms in 2011/12 for the sum of £300.

Officers

There were no related party transactions during the year by officers of the Council.

Other Public Bodies

Subject to a common control by central government, transactions with other public bodies are shown below:

| <b>2010/11<br/>£000</b> |  | <b>2011/12<br/>£000</b> |
|-------------------------|--|-------------------------|
| 28,645                  | Hampshire County Council Precept payments                        | 28,640                  |
| 1,950                   | Hampshire County Council Pension Fund payments                   | 1,730                   |
| 4,036                   | Hampshire Police Authority Precept payments                      | 4,036                   |
|                         | Hampshire Fire & Rescue Authority Precept payments               | 1,694                   |
| 1,694                   | Authority Precept payments                                       | 1,694                   |
| 227                     | Building Control Partnership Payments to Fareham Borough Council | 299                     |
| (352)                   | Building Control Partnership Income from Fareham Borough Council | (347)                   |
| (42)                    | Internal Audit Partnership Income from Eastleigh Borough Council | (72)                    |

Entities controlled or significantly influenced by the Council

Portchester Crematorium: The Council along with 3 neighbouring authorities is part of the Portchester Crematorium Joint Committee.

The joint committee manages the operations of Portchester Crematorium and is equally represented by the four constituent authorities: Gosport Borough Council, Fareham Borough Council, Havant Borough Council and Portsmouth City Council. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. During 2011/12 the Council received £140,000 (£135,000 in 2010/11) from the Joint Committee being its share of the distributable surpluses.

Gosport Borough Council's share of the net assets of Portchester Crematorium Joint Committee are £1,353,010 (£1,337,170 in 2010/11) which equates to 3.0% of the Council's net assets at 31 March 2012.

Portsmouth Harbour Renaissance Ltd – the Council is one of three equal shareholders in Portsmouth Harbour Renaissance Ltd. Portsmouth Harbour Renaissance Ltd. does not operate independently, generate surpluses or own assets. It is merely an interface between the project partners (shareholders) and the Millennium Commission; collating the expenditure of the partners, submitting the claims, receiving and distributing the grant. Any administrative costs are charged to the partners quarterly. The accounts of PHR are audited independently and are available from Portsmouth City Council.

### 31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

#### Capital Financing Requirement

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| <b>10,534 Opening Capital Financing Requirement</b>   | <b>13,446</b>    |
| Capital Investment  |                  |
| 5,470 Plant, Property & Equipment   | 8,414            |
| 6 Investment Properties   | 24               |
| 190 Intangible Assets   | 146              |
| 1,295 Revenue Expenditure funded from Capital under Statute                                   | 988              |
| - Settlement Payment to the Government for HRA Self Financing                                 | 57,029           |
| Sources of Finance  |                  |
| (84) Capital Receipts   | (288)            |
| (3,607) Government Grants & Other Contributions   | (3,471)          |
| - Revenue Financing from the HRA  | (29)             |
| Other Adjustments   |                  |
| (59) Finance lease reduction of long term liability   | (59)             |
| (299) Sum set aside from Revenue (MRP)  | (329)            |
| - Refinancing of capital debtor   | 495              |
| <b>13,446 Closing Capital Financing Requirement</b>   | <b>76,366</b>    |
| <b>Explanation of Movements in year</b>   |                  |
| 3,270 Increase in underlying need to borrow   | 62,813           |
| (299) (Decrease) / Increase in underlying need to borrow because of Long Term Debtors and MRP | 166              |
| (59) Increase or (reduction) in Finance Lease liability                                       | (59)             |
| <b>2,912 Increase / (decrease) in Capital Financing Requirement</b>                           | <b>62,920</b>    |

### Revenue Expenditure Funded From Capital Under Statute

Revenue expenditure funded from capital under statute represents capital expenditure that does not result in the creation of an asset. Movements on revenue expenditure funded from capital under statute during the year were as follows

|                       | Balance at 1<br>April | Expenditure  | Charged to<br>Revenue | Balance at<br>31 March |
|-----------------------|-----------------------|--------------|-----------------------|------------------------|
|                       | £'000                 | £'000        | £'000                 | £'000                  |
| Affordable Housing    | 0                     | 639          | (639)                 | 0                      |
| Housing Grants        | 0                     | 276          | (276)                 | 0                      |
| Other Capital Schemes | 0                     | 73           | (73)                  | 0                      |
| <b>Total 2011/12</b>  | <b>0</b>              | <b>988</b>   | <b>(988)</b>          | <b>0</b>               |
| <b>Total 2010/11</b>  | <b>0</b>              | <b>1,295</b> | <b>(1,295)</b>        | <b>0</b>               |

### 32. Impairment Losses

There were no impairment losses to report.

### 33. Leases

| <b>Authority as Lessee</b>   |                               |                  |                  |                               |                  |                  |
|--|-------------------------------|------------------|------------------|-------------------------------|------------------|------------------|
| <u>Finance Leases</u>  |                               |                  |                  |                               |                  |                  |
| The Council has an item of office equipment held under a finance lease.                              |                               |                  |                  |                               |                  |                  |
| The assets acquired under these leases are carried as Equipment in the Balance Sheet at the          |                               |                  |                  |                               |                  |                  |
|  | <b>01-Apr-10</b>              | <b>31-Mar-11</b> | <b>31-Mar-12</b> |                               |                  |                  |
|  | <b>£'000</b>                  | <b>£'000</b>     | <b>£'000</b>     |                               |                  |                  |
| Vehicles, Plant, Furniture and Equipment   | 177                           | 119              | 80               |                               |                  |                  |
|  | <u>177</u>                    | <u>119</u>       | <u>80</u>        |                               |                  |                  |
| The Authority is committed to making minimum payments under these leases comprising settlement of    |                               |                  |                  |                               |                  |                  |
|  | <b>01-Apr-10</b>              | <b>31-Mar-11</b> | <b>31-Mar-12</b> |                               |                  |                  |
|  | <b>£'000</b>                  | <b>£'000</b>     | <b>£'000</b>     |                               |                  |                  |
| Finance lease liabilities  |                               |                  |                  |                               |                  |                  |
| current  | 59                            | 40               | 41               |                               |                  |                  |
| non current  | 123                           | 83               | 42               |                               |                  |                  |
| Finance costs payable in future years  | 13                            | 7                | 4                |                               |                  |                  |
| Minimum lease payments   | <u>195</u>                    | <u>130</u>       | <u>87</u>        |                               |                  |                  |
| The minimum lease payments will be payable over the following periods:                               |                               |                  |                  |                               |                  |                  |
|  | <b>Minimum Lease Payments</b> |                  |                  | <b>Finance Lease payments</b> |                  |                  |
|  | <b>01-Apr-10</b>              | <b>31-Mar-11</b> | <b>31-Mar-12</b> | <b>01-Apr-10</b>              | <b>31-Mar-11</b> | <b>31-Mar-12</b> |
|  | <b>£'000</b>                  | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>                  | <b>£'000</b>     | <b>£'000</b>     |
| Not later than one   | 64                            | 43               | 43               | 59                            | 40               | 41               |
| Later than one year  | 131                           | 87               | 44               | 123                           | 83               | 42               |
| Later than five years  |                               |                  |                  |                               |                  |                  |
|  | <u>195</u>                    | <u>130</u>       | <u>87</u>        | <u>182</u>                    | <u>123</u>       | <u>83</u>        |
| <u>Operating Leases</u>  |                               |                  |                  |                               |                  |                  |
| The Authority has lease arrangements for vehicles and data link lines.                               |                               |                  |                  |                               |                  |                  |
| The future estimated minimum lease payments are:   |                               |                  |                  |                               |                  |                  |
|  | <b>01-Apr-10</b>              | <b>31-Mar-11</b> | <b>31-Mar-12</b> |                               |                  |                  |
|  | <b>£'000</b>                  | <b>£'000</b>     | <b>£'000</b>     |                               |                  |                  |
| Not later than one year  | 52                            | 46               | 25               |                               |                  |                  |
| Later than one year and not later than five years  | 115                           | 85               | 32               |                               |                  |                  |
| Later than five years  | 15                            | 15               | 7                |                               |                  |                  |
|  | <u>182</u>                    | <u>146</u>       | <u>64</u>        |                               |                  |                  |
| The expenditure charged to the Cultural, Environmental, Regulatory and Planning Services line in the |                               |                  |                  |                               |                  |                  |
|  |                               | <b>2010/11</b>   | <b>2011/12</b>   |                               |                  |                  |
|  |                               | <b>£'000</b>     | <b>£'000</b>     |                               |                  |                  |
| Minimum lease payments   |                               | 52               | 39               |                               |                  |                  |
|  |                               | <u>52</u>        | <u>39</u>        |                               |                  |                  |

**Authority as Lessor**Finance Leases

The Council has entered into a finance lease for the Gosport Ferry Landing Stage over a term of 50

|                               | 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 | 31-Mar-12<br>£'000 |
|-------------------------------|--------------------|--------------------|--------------------|
| Finance lease debtor          |                    |                    |                    |
| current                       | -                  | -                  | 26                 |
| non current                   | -                  | -                  | 4,912              |
| Unearned finance income       | -                  | -                  | 7,863              |
| Gross investment in the lease | -                  | -                  | 12,801             |

The minimum lease payments will be payable over the following periods:

|                       | <b>Gross Investment in the Lease</b> |                    |                    | <b>Minimum Lease Payments</b> |                    |                    |
|-----------------------|--------------------------------------|--------------------|--------------------|-------------------------------|--------------------|--------------------|
|                       | 01-Apr-10<br>£'000                   | 31-Mar-11<br>£'000 | 31-Mar-12<br>£'000 | 01-Apr-10<br>£'000            | 31-Mar-11<br>£'000 | 31-Mar-12<br>£'000 |
| Not later than one    | -                                    | -                  | 260                | -                             | -                  | 260                |
| Later than one year   | -                                    | -                  | 1,040              | -                             | -                  | 1,040              |
| Later than five years | -                                    | -                  | 11,501             | -                             | -                  | 11,501             |
|                       | -                                    | -                  | 12,801             | -                             | -                  | 12,801             |

Operating Leases

The Authority leases out land and property under operating leases primarily for:

- the provision of community services
- economic development purposes
- the lease of the seabed and dolphins for the ferry landing stage

The future minimum lease payments receivable under non-cancellable leases in future years are:

|   | 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 | 31-Mar-12<br>£'000 |
|---|--------------------|--------------------|--------------------|
| Not later than one year                           | 417                | 379                | 531                |
| Later than one year and not later than five years | 1,034              | 1,000              | 2,125              |
| Later than five years                             | 13,960             | 13,718             | 16,449             |
|   | 15,411             | 15,097             | 19,105             |

The minimum lease payments receivable do not include rents that are contingent on events taking

## 34. Pension

The reported figures and disclosure note are predominantly supplied by AON Hewitt Limited, the independent actuaries to the Hampshire County Council administered pension fund.

### Introduction

The disclosures below relate to the funded and unfunded liabilities within the Hampshire County Council Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS').

- Funded - the funded nature of the LGPS requires Gosport Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Unfunded - the unfunded pension arrangements established by Gosport Borough Council comprise termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS.

Gosport Borough Council recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure within the Comprehensive Income and Expenditure Statement.

### Transactions Relating to Post-Employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year

| 2010/11   |                | Transactions relating to Post-employment Benefits   | 2011/12       |                |
|---|----------------|---|---------------|----------------|
| Funded<br>£m  | Unfunded<br>£m |   | Funded<br>£m  | Unfunded<br>£m |
| <b><u>Comprehensive Income and Expenditure Statement</u></b>  |                |   |               |                |
| <b>Cost of Services</b>   |                |   |               |                |
| 1,480   |                | Current service costs   | 1,150         |                |
| (9,190)   | (270)          | Past service costs  | 180           | 0              |
| <b>Financing and Investment Income and Expenditure</b>  |                |   |               |                |
| (3,030)   |                | Expected return on scheme assets  | (3,330)       |                |
| 4,380   | 150            | Interest cost   | 4,180         | 140            |
| <b>Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services</b> |                |   | <b>2,180</b>  | <b>140</b>     |
| <b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>  |                |   |               |                |
| (4,460)   |                | Actuarial gains and losses  | 8,210         |                |
| <b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>  |                |   | <b>10,390</b> | <b>140</b>     |
| <b><u>Movement in Reserves Statement</u></b>  |                |   |               |                |
| 6,360   | 120            | Reversal of net charges made to the Surplus or deficit for the Provision of Services for post employment benefits in accordance with the code | (2,180)       | (140)          |
| <b><u>Actual amount charged against the General Fund Balance for pensions in the year</u></b>       |                |   |               |                |
| <b>1,760</b>  |                | Employers' contributions payable to scheme  | <b>1,530</b>  |                |
|   | <b>190</b>     | Retirement benefits payable to pensioners   |               | <b>200</b>     |

In accordance with International Financial Reporting Standards, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

#### Contributions for the accounting period ending 31 March 2013

- Funded - the Employer's regular contributions to the Fund for the accounting period 31 March 2013 are estimated to be £1.45M. In addition, Strain on Fund Contributions may be required.
- Unfunded - in the accounting period ending 31 March 2013 the Employer expects to pay £0.21M directly to beneficiaries

#### Assumptions

The latest actuarial valuation of Gosport Borough Council's liabilities took place as at 31 March 2010. Liabilities have been estimated by the independent qualified actuary on an actuarial basis

using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were

| 2009/10   | 2010/11 |   | 2011/12 |
|---|---------|---|---------|
| <b><u>Principal financial assumptions (% per annum)</u></b>   |         |   |         |
| <b><u>Funded</u></b>  |         |   |         |
| 5.5%  | 5.5%    | Discount rate                             | 4.7%    |
| 3.9%  | 3.7%    | RPI Inflation                             | 3.5%    |
| N/A   | 2.8%    | CPI Inflation                             | 2.5%    |
| 3.9%  | 2.8%    | Rate of increase to pensions in payment * | 2.5%    |
| 3.9%  | 2.8%    | Rate of increase to deferred pensions     | 2.5%    |
| 5.4%  | 5.2%    | Rate of general increase in salaries **   | 5.0%    |
| * In excess of Guaranteed Minimum Pension increases in payment where appropriate  |         |   |         |
| ** In addition, allowance has been made for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010 |         |   |         |
| <b><u>Unfunded</u></b>  |         |   |         |
| 5.5%  | 5.5%    | Discount rate                             | 4.6%    |
| 3.8%  | 3.6%    | RPI Inflation                             | 3.4%    |
| N/A   | 2.7%    | CPI Inflation                             | 2.4%    |
| 3.8%  | 2.7%    | Rate of increase to pensions in payment   | 2.4%    |

## Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements

| 2010/11  |  | 2011/12  |  |
|--|--|--|--|
| <b><u>Post retirement mortality (retirement in normal health)</u></b>  |  |  |  |
| <b><u>Males</u></b>  |  |  |  |
| Standard SAPS<br>Normal Health Light<br>Amounts  | Year of Birth base table                                 | Standard SAPS<br>Normal Health Light<br>Amounts                      |  |
| 0  | Rating to above base table * (years)                     | 0  |  |
| 100%   | Scaling to above base table rates                        | 100%   |  |
| CMI_2009 with a<br>long term rate of<br>improvement of<br>1.25% p.a.   | Improvements to base table rates                         | CMI_2009 with a<br>long term rate of<br>improvement of<br>1.25% p.a. |  |
| 23.8   | Future lifetime from age 65 (aged 65 at accounting date) | 23.9   |  |
| 25.6   | Future lifetime from age 65 (aged 45 at accounting date) | 25.6   |  |
| <b><u>Females</u></b>  |  |  |  |
| Standard SAPS<br>Normal Health Light<br>Amounts  | Year of Birth base table                                 | Standard SAPS<br>Normal Health Light<br>Amounts                      |  |
| 0  | Rating to above base table * (years)                     | 0  |  |
| 100%   | Scaling to above base table rates                        | 100%   |  |
| CMI_2009 with a<br>long term rate of<br>improvement of<br>1.25% p.a.   | Improvements to base table rates                         | CMI_2009 with a<br>long term rate of<br>improvement of<br>1.25% p.a. |  |
| 24.8   | Future lifetime from age 65 (aged 65 at accounting date) | 24.9   |  |
| 26.7   | Future lifetime from age 65 (aged 45 at accounting date) | 26.8   |  |
| <p>* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.</p> |  |  |  |

| 2010/11   | 2011/12   |
|---|---|
| <b>Commutation (Funded only)</b>  |   |
| Each member assumed to exchange 25% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum.  | Each member assumed to exchange 25% of the maximum amount permitted of their pre 01 April 2010 pension entitlements, for additional lump sum. |
| Each member assumed to exchange 75% of the maximum amount permitted of their future service pension rights on retirement, for additional lump sum | Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum |

### Expected return on assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

### Basis used to determine expected return

Gosport Borough Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2012.

| 01-Apr-10                                     |                | 31-Mar-11                                     |                | 31-Mar-12                                     |                |
|---|----------------|---|----------------|---|----------------|
| Long-term<br>expected<br>rates of<br>return * | Asset<br>Split | Long-term<br>expected<br>rates of<br>return * | Asset<br>Split | Long-term<br>expected<br>rates of<br>return * | Asset<br>Split |
| 8.0%  | 61.3%          | 8.4%  | 63.4%          | 8.1%  | 55.2%          |
| 8.5%  | 6.1%           | 7.9%  | 7.3%           | 7.6%  | 7.7%           |
| 4.5%  | 24.4%          | 4.4%  | 23.3%          | 3.1%  | 27.0%          |
| 5.5%  | 2.4%           | 5.1%  | 1.7%           | 3.7%  | 1.5%           |
| 0.7%  | 5.8%           | 1.5%  | 4.3%           | 1.8%  | 4.1%           |
| 8.0%  | 0.0%           | 8.4%  | 0.0%           | 8.1%  | 4.5%           |
| <b>6.7%</b>                                   | <b>100.0%</b>  | <b>7.1%</b>                                   | <b>100.0%</b>  | <b>6.4%</b>                                   | <b>100.0%</b>  |
|   |                |   | <b>Total</b>   |   |                |

\* The overall expected rate of return on Fund assets is a weighted average of the individual expected rates of return on each asset class, and is shown in the bottom row of the above table.

\*\* Other holdings include hedge funds, currency holdings, asset allocation futures and other. It is assumed these will get a return in line with equities.

### Reconciliation to Balance Sheet

| 01-Apr-10<br>£m                               | 31-Mar-11<br>£m |  | 31-Mar-12<br>£m |
|---|-----------------|--|-----------------|
| <b><u>Reconciliation to Balance Sheet</u></b> |                 |  |                 |
| <b><u>Funded</u></b>                          |                 |  |                 |
| 46.34   | 48.10           | Fair value of assets                                     | 48.77           |
| (87.58)                                       | (76.81)         | Present value of funded defined benefit obligation       | (86.11)         |
| (41.24)                                       | (28.71)         | Pension liability before consideration of paragraph 58   | (37.34)         |
| 0.00  | 0.00            | Adjustment in respect of paragraph 58                    | 0.00            |
| <b>(41.24)</b>                                | <b>(28.71)</b>  | <b>Pension liability recognised on the Balance Sheet</b> | <b>(37.34)</b>  |
| <b><u>Unfunded</u></b>                        |                 |  |                 |
| (3.08)  | (2.72)          | Present value of defined benefit obligation              | (2.89)          |
| <b>(3.08)</b>                                 | <b>(2.72)</b>   | <b>Pension liability recognised on the Balance Sheet</b> | <b>(2.89)</b>   |
| <b>(44.32)</b>                                | <b>(31.43)</b>  | <b>Total</b>   | <b>(40.23)</b>  |

### Charges to the Surplus or Deficit on the Provision of Services

| 2010/11<br>£m          |                           | 2011/12<br>£m |
|------------------------|---------------------------|---------------|
| <b><u>Funded</u></b>   |                           |               |
| 1.48                   | Current service cost      | 1.15          |
| (9.19)                 | Past service cost         | 0.18          |
| 4.38                   | Interest cost             | 4.18          |
| (3.03)                 | Expected return on assets | (3.33)        |
| 0.00                   | Curtailement cost         | 0.00          |
| 0.00                   | Settlement cost           | 0.00          |
| <b>(6.36)</b>          | <b>Expense recognised</b> | <b>2.18</b>   |
| <b><u>Unfunded</u></b> |                           |               |
| 0.00                   | Current service cost      | 0.00          |
| (0.27)                 | Past service cost         | 0.00          |
| 0.15                   | Interest cost             | 0.14          |
| 0.00                   | Expected return on assets | 0.00          |
| 0.00                   | Curtailement cost         | 0.00          |
| 0.00                   | Settlement cost           | 0.00          |
| <b>(0.12)</b>          | <b>Expense recognised</b> | <b>0.14</b>   |
| <b>(6.48)</b>          | <b>Total</b>              | <b>2.32</b>   |

### Changes to the present value of defined benefit obligation during the accounting period

| 2010/11<br>£m  |  | 2011/12<br>£m |
|--|--|---------------|
|  | <b><u>Funded</u></b>                               |               |
| 87.58  | Opening defined benefit obligation                 | 76.81         |
| 1.48   | Current service cost                               | 1.15          |
| 4.38   | Interest cost                                      | 4.18          |
| 0.51   | Contributions by participants                      | 0.44          |
| (4.42)   | Actuarial (gains) / losses on liabilities *        | 6.90          |
| (3.53)   | Net benefits paid out #                            | (3.55)        |
| (9.19)   | Past service cost                                  | 0.18          |
| 0.00   | Business combinations                              | 0.00          |
| 0.00   | Curtailments                                       | 0.00          |
| 0.00   | Settlements  | 0.00          |
| <b>76.81</b>   | <b>Closing funded defined benefit obligation</b>   | <b>86.11</b>  |
|  | <b><u>Unfunded</u></b>                             |               |
| 3.08   | Opening unfunded defined benefit obligation        | 2.72          |
| 0.00   | Current service cost                               | 0.00          |
| 0.15   | Interest cost                                      | 0.14          |
| (0.05)   | Actuarial (gains) / losses on liabilities *        | 0.23          |
| (0.19)   | Net benefits paid out                              | (0.20)        |
| (0.27)   | Past service cost                                  | 0.00          |
| 0.00   | Business combinations                              | 0.00          |
| 0.00   | Curtailments                                       | 0.00          |
| 0.00   | Settlements  | 0.00          |
| <b>2.72</b>  | <b>Closing unfunded defined benefit obligation</b> | <b>2.89</b>   |
| * Includes changes to actuarial assumptions  |  |               |
| # Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. |  |               |

### Changes to the fair value of assets during the accounting period

| 2010/11<br>£m  |                                      | 2011/12<br>£m |
|--|--------------------------------------|---------------|
| 46.34  | Opening fair value of assets         | 48.10         |
| 3.03   | Expected return on assets            | 3.33          |
| (0.01)   | Actuarial gains / (losses) on assets | (1.08)        |
| 1.76   | Contributions by the employer        | 1.53          |
| 0.51   | Contributions by participants        | 0.44          |
| (3.53)   | Net benefits paid out #              | (3.55)        |
| 0.00   | Business combinations                | 0.00          |
| 0.00   | Settlements                          | 0.00          |
| <b>48.10</b>   | <b>Closing fair value of assets</b>  | <b>48.77</b>  |
| # Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums. |                                      |               |

**Actual return on assets**

| 2010/11<br>£m                            | 2011/12<br>£m |
|--|---------------|
| 3.03 Expected return on assets           | 3.33          |
| (0.01) Actuarial gain / (loss) on assets | (1.08)        |
| <b>3.02 Actual return on assets</b>      | <b>2.25</b>   |

**Analysis of amounts recognised in Other Comprehensive Income and Expenditure**

| 2010/11<br>£m                              | 2011/12<br>£m |
|--|---------------|
| <b>Funded</b>                              |               |
| 4.41 Total actuarial gains / (losses)      | (7.98)        |
| 0.00 Adjustment in respect of paragraph 58 | 0.00          |
| <b>4.41 Total gains / (losses)</b>         | <b>(7.98)</b> |
| <b>Unfunded</b>                            |               |
| 0.05 Total actuarial gains / (losses)      | (0.23)        |
| <b>0.05 Total gains (loss)</b>             | <b>(0.23)</b> |
| <b>4.46 Total</b>                          | <b>(8.21)</b> |

**History of asset values, present value of defined benefit obligation and surplus / deficit**

|                              | 2007/08<br>(restated)<br>£m | 2008/09<br>£m  | 2009/10<br>£m  | 2010/11<br>£m  | 2011/12<br>£m  |
|------------------------------|-----------------------------|----------------|----------------|----------------|----------------|
| Funded                       |                             |                |                |                |                |
| Fair value of assets         | 44.62                       | 35.10          | 46.34          | 48.10          | 48.77          |
| Present value of liabilities | (61.26)                     | (64.09)        | (87.58)        | (76.81)        | (86.11)        |
| Surplus / (deficit)          | (16.64)                     | (28.99)        | (41.24)        | (28.71)        | (37.34)        |
| Unfunded liability           | (2.67)                      | (2.71)         | (3.08)         | (2.72)         | (2.89)         |
|                              | <b>(19.31)</b>              | <b>(31.70)</b> | <b>(44.32)</b> | <b>(31.43)</b> | <b>(40.23)</b> |

### History of experience gains and losses

|  | 2007/08    |              | 2008/09    |              | 2009/10    |              | 2010/11    |              | 2011/12    |              |
|--|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|
|  | Fund<br>£m | Unfund<br>£m |
| Experience gains / (losses) on assets          | (1.63)     |              | (12.01)    |              | 9.57       |              | (0.01)     |              | (1.08)     |              |
| Percentage of assets                           |            |              |            |              | 20.7%      |              | 0.0%       |              | -2.2%      |              |
| Experience gains / (losses) on liabilities #   | (0.30)     | 0.30         | (0.30)     | (0.04)       | 0.84       | 0.08         | 2.68       | (0.01)       | (0.66)     | (0.05)       |
| Percentage of the present value of liabilities | -0.5%      | 11.2%        | -0.5%      | -1.5%        | 1.0%       | 2.6%         | 3.5%       | -0.4%        | -0.8%      | -1.7%        |

# This item consists of gains / (losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £8.21m (gains of £4.46m for 2010/11) have been included in Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement. Cumulative actuarial gains and losses are £36.009m.

## 35. Contingent Liabilities

- Municipal Mutual Insurance Limited

It was previously forecast that a small surplus - part of which would have been distributed to Gosport Borough Council - would result from the winding up of the company. However, MMI is now seeking professional advice to determine the implications for the scheme creditors of the judgement reached by the Supreme Court in the Employers Liability Policy Trigger Litigation in March 2012. The actuaries have reported that any resulting deficit would be partially recoverable from Gosport Borough Council as a scheme creditor. The latest available scheme statement is for the six months ended 31 March 2012 which indicates that the maximum liability would be approximately £60,000.

- Browndown Tip

The Council's officers are of the opinion that the Council could have substantial liabilities under the provisions of the Environmental Protection Act 1990 as a class B person namely the current owner / occupier of the land. The extent of the liability depends on the contamination, whether a class A person (one who caused or knowingly permitted the contamination) can be identified and the future use of the land. These matters continue to be investigated by the Environment Agency and a final report is awaited.

- Local Land Charges

The Environmental Information Regulations 2004, which came into force on 1 January 2005 have opened the possibility of certain search fee income being deemed unlawful after that date with the potential for subsequent refunds. This is not accurately quantifiable at the moment and

negotiations are ongoing between the Local Government Association and the government with ongoing litigation outstanding.

### **36. Contingent Assets**

- VAT

In conjunction with the Council's VAT advisors, the Council has protected its position regarding vat collected for off street car parking charges by voluntarily declaring vat income to HM Revenues and Customs (HMRC) from 2004/05 to 2011/12. The potential recovery of this sum is dependent on the outcome of a case that is currently being reviewed by the VAT Tribunal, however it is widely felt by advisors that the decision will fall in favour of HMRC. The total VAT claim is £758,000. No claim has been made for any interest.

- Landing Stage

The new Gosport Ferry Terminal was scheduled to open on 1 April 2011 and actually opened on 27 June 2011. Final works and contract sums are to be completed at 31 March 2012 and discussions regarding compensation for late opening are taking place.

- Priddys Hard Profit Share

In 2009/10 the Portsmouth Naval Base Property Trust purchased the Priddys Hard Heritage Area, including the Explosion Museum, from the Council. Under the terms of the agreement the Council would receive a share of profits that may arise from future developments.

### 37. Cash Flow Statement – notes

| 2010/11<br>£000 | Adjustments to surplus or deficit on the provision of services for<br>non-cash movements | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 44,551          | Depreciation and Impairments   | 2,054           |
|                 | - Impairment and Downward Valuations   | 1,247           |
| 116             | Amortisation   | 92              |
| 11              | Increase/(Decrease) in Interest Creditors  | 73              |
| 59              | Increase/Decrease in Creditors   | (507)           |
| 2,699           | (Increase)/Decrease in Debtors   | (344)           |
| (6)             | (Increase)/Decrease in Interest Debtors  | 31              |
| 31              | (Increase)/Decrease in Inventories   | 5               |
| (40)            | Adjustment of Effective Interest Rates   | (43)            |
| (6,480)         | Movement in Pension Liability  | 2,320           |
| 511             | Carrying amount of non-current assets sold   | 4,843           |
| 7,000           | Carrying amount of short and long term investments sold                                  | -               |
| (1,028)         | Movement in Investment Property Values   | 1,239           |
| (53)            | Miscellaneous Adjustments  | -               |
| <b>47,371</b>   | <b>Net cash flow</b>   | <b>11,010</b>   |

| 2010/11<br>£000 | Interest and Dividends included in Operating Activities | 2011/12<br>£000 |
|-----------------|---|-----------------|
| (214)           | Interest Received                                       | (394)           |
| 553             | Interest Paid   | 602             |
|                 | - Dividends Received or Paid                            | -               |
| <b>339</b>      | <b>Net cash outflow from Interest and Dividends</b>     | <b>208</b>      |

| 2010/11<br>£000 | Net Cash Flow from Investing Activities  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 5,018           | Purchase of property, plant and equipment, investment property and intangible assets               | 7,819           |
| 7,000           | Purchase of short-term investments   |                 |
| 191             | Other payments from investing activities   |                 |
|                 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (466)           |
| (7,000)         | Proceeds from short-term and long-term investments   | (4,031)         |
|                 | Other receipts from investing activities   | (51)            |
| (479)           | Capital grants received  |                 |
| <b>4,378</b>    | <b>Net cash flows from investing activities</b>  | <b>3,271</b>    |

| 2010/11<br>£000 | Financing Activities                            | 2011/12<br>£000 |
|-----------------|---|-----------------|
| (5,802)         | Cash receipts of short and long-term borrowing  | (59,160)        |
| 2,073           | Council Tax and NNDR adjustments                | (2,937)         |
| 4,000           | Repayments of short and long-term borrowing     | 1,203           |
| <b>271</b>      | <b>Net cash flows from financing activities</b> | <b>(60,894)</b> |

### 38. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Borough Treasurer on 26 September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 39. Certification and authorisation of the Accounts

#### Statement of Accounts – unaudited draft authorised for issue

Signed

Date

P. WILSON

Deputy Chief Executive and Borough Treasurer, Section 151 officer

#### Statement of Accounts – audited statement authorised for issue

Signed

Date

J. BOWCHER

Borough Treasurer, Section 151 officer

#### Statement of Accounts – audited and approved by Policy and Organisation Board

Signed

Date

COUNCILLOR M. HOOK

Leader of the Council

Statement of Accounts – approved by Policy and Organisation Board and authorised for publication

Signed

Date

J. BOWCHER

Borough Treasurer, Section 151 officer

## HRA INCOME AND EXPENDITURE STATEMENT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement in Reserves Statement

| 2010/11<br>£'000 |   | 2011/12<br>£'000 | 2011/12<br>£'000 |
|------------------|---|------------------|------------------|
|                  | <b>EXPENDITURE</b>  |                  |                  |
| 2,742            | Repairs & Maintenance   | 2,919            |                  |
| 2,823            | Supervision & Management  | 2,892            |                  |
| 47               | Rents, Rates, Taxes & Other Charges   | 44               |                  |
| 3,395            | Negative HRA Subsidy Payable  | 3,479            |                  |
| 1,965            | Depreciation of Non Current Assets  | 2,324            |                  |
| 42,936           | Impairment of Non Current Assets  | 820              |                  |
| 30               | Debt Management Costs   | 60               |                  |
| 0                | Movement in the Allowance for Bad or Doubtful Debts   | 0                |                  |
| 0                | Settlement Payment to the Government for HRA Self Financing   | 57,029           |                  |
| <b>53,938</b>    | <b>TOTAL EXPENDITURE</b>  |                  | <b>69,567</b>    |
|                  | <b>INCOME</b>   |                  |                  |
| (10,640)         | Dwelling Rents  | (11,357)         |                  |
| (228)            | Non Dwelling Rents  | (246)            |                  |
| (431)            | Charges for Services and Facilities   | (540)            |                  |
| <b>(11,299)</b>  | <b>TOTAL INCOME</b>   |                  | <b>(12,143)</b>  |
| <b>42,639</b>    | <b>NET COST OF HRA SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b>                       |                  | <b>57,424</b>    |
| 0                | HRA Services share of Corporate & Democratic Core   |                  | 0                |
| <b>42,639</b>    | <b>NET COST OF HRA SERVICES</b>   |                  | <b>57,424</b>    |
|                  | <b>HRA SHARE OF THE OPERATING INCOME AND EXPENDITURE INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT</b> |                  |                  |
| (52)             | (Gain) or Loss on the disposal of HRA Non-Current Assets  |                  | 15               |
| 251              | Payments to the Governments Housing Capital Receipts Pool   |                  | 153              |
| 174              | Interest Payable and Similar Charges  |                  | 177              |
| (18)             | Interest and Investment income  |                  | (7)              |
| 306              | Pensions Interest Cost and Expected Return on Pensions Assets   |                  | 211              |
| <b>43,300</b>    | <b>Deficit for the year on the HRA Income and Expenditure Account</b>   |                  | <b>57,973</b>    |

| 2010/11<br>£'000 | MOVEMENT ON THE HRA STATEMENT  | 2011/12<br>£'000 | 2011/12<br>£'000 |
|------------------|--|------------------|------------------|
| (358)            | Balance on the HRA at the end of the previous year                   |                  | (439)            |
| 43,300           | Deficit for the year on the HRA Income and Expenditure Account       | 57,973           |                  |
| (43,362)         | Adjustments between accounting basis and funding basis under statute | (58,137)         |                  |
| (62)             | Net (increase) or decrease before transfers to or from reserves      |                  | (164)            |
| (19)             | Transfers to or (from) Reserves                                      |                  | 0                |
| (81)             | (Increase) or decrease in year on HRA                                |                  | (164)            |
| <b>(439)</b>     | Balance on the HRA at the end of the current year                    |                  | <b>(603)</b>     |

## NOTES TO THE HOUSING REVENUE ACCOUNT (HRA)

### 1. Local Government and Housing Act 1989

The Housing Revenue Account reflects a statutory obligation to maintain a separate revenue account for the provision of local authority housing in accordance with the Local Government and Housing Act 1989. This specifies the credit and debit items to be taken into account in determining the surplus or deficit on the HRA for the year.

The amounts included in the HRA differ from those included in respect of HRA services in the Income and Expenditure Account for the authority as a whole. The latter includes income and expenditure in accordance with the CODE rather than in accordance with statutory and non-statutory proper practices. The HRA statement has two parts in order to reconcile these two approaches – the Income and Expenditure Account shows in more detail the income and expenditure on HRA services included in the whole authority income and expenditure account and this is reconciled to the movement on the HRA balance for the year in the Movement on the HRA Statement.

### 2. Adjustments between Accounting and Funding bases under regulations

| <b>ADJUSTMENTS BETWEEN ACCOUNTING AND FUNDING BASES UNDER REGULATIONS</b>  |   | <b>2010/11</b> | <b>2011/12</b>  |
|--|---|----------------|-----------------|
|  |   | <b>£'000</b>   | <b>£'000</b>    |
| <b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>   |   |                |                 |
| (42,936)   | Impairment of Plant, Property & Equipment (PPE)   |                | (820)           |
| 52   | Gain or (Loss) on the disposal of HRA Non-Current Assets  |                | (15)            |
| (251)  | Contributions from the Capital Receipts Reserve to finance payments to the Governments Housing Capital Receipts Pool          |                | (153)           |
| 0  | Settlement Payment to the Government for HRA Self Financing   |                | (57,029)        |
| 0  | Capital Expenditure funded by the HRA   |                | 29              |
| 0  | Net charges to Accumulated Absences Account   |                | (37)            |
| (608)  | Net charges made for retirement benefits in accordance with IAS19   |                | (362)           |
| <b>(43,743)</b>  |   |                | <b>(58,387)</b> |
| <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b> |   |                |                 |
| 381  | Employers contributions payable to the Local Government Pension Scheme and retirement benefits payable directly to pensioners |                | 250             |
| <b>381</b>   |   |                | <b>250</b>      |
| <b>(43,362)</b>  | <b>Net additional amount required by statute to be credited to the HRA Balance for the year</b>                               |                | <b>(58,137)</b> |



and Local Government (DCLG) in January 2011 which requires the review of the housing stock to be undertaken at the commencement of the financial year 2011/12 on 1 April 2011.

The analysis below shows the value of dwellings within the HRA if they were sold on the open market with vacant possession and free from any legal or regulatory tenancies. The difference between the vacant possession value and the balance sheet value represents the economic cost to the government of providing Council Housing at less than market rents.

| <b>01-Apr-10</b> | <b>31-Mar-11</b> |                        | <b>31-Mar-12</b> |
|------------------|------------------|------------------------|------------------|
| <b>£'000</b>     | <b>£'000</b>     |                        | <b>£'000</b>     |
| 330,072          | 330,072          | Dwellings              | 330,044          |
| 896              | 896              | Other Land & Buildings | 925              |
| <b>330,968</b>   | <b>330,968</b>   |                        | <b>330,969</b>   |

## 6. Major Repairs Reserve

The major repairs reserve was set up in 2001/02 to account for the new government subsidy for major repairs to council dwellings – the major repairs allowance (MRA).

| <b>2010/11</b> |                            | <b>2011/12</b> |
|----------------|----------------------------|----------------|
| <b>£'000</b>   |                            | <b>£'000</b>   |
| 0              | Balance at 1 April         | 0              |
| 1,965          | Receipts in year           | 2,324          |
| (1,965)        | Expenditure in year        | (2,324)        |
| <b>0</b>       | <b>Balance at 31 March</b> | <b>0</b>       |

## 7. Housing Repairs

| <b>2010/11</b> |                         | <b>2011/12</b> |
|----------------|-------------------------|----------------|
| <b>£'000</b>   |                         | <b>£'000</b>   |
| 5,071          | Expenditure on Repairs  | 6,041          |
| 3,584          | Of which planned        | 4,565          |
| 70.1%          | % of Planned / Response | 75.50%         |

£ 3.695 million of the 2011/12 expenditure (£2.329 million in 2010/11) on repairs was capital expenditure.

The main categories of expenditure were a hostel conversion, window and door replacement and the modernisation of kitchens and bathrooms.

## 8. Capital Expenditure

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| 2,279 HRA Properties - capital repairs & maintenance          | 2,603            |
| 50 LA Tenants Disabled Persons Grants                         | 268              |
| - Adult Family Centre   | 824              |
| - Settlement Payment to the Government for HRA Self Financing | 57,029           |
| <b>2,329</b>  | <b>60,724</b>    |

## 9. Capital Financing

| 2010/11<br>£'000  | 2011/12<br>£'000 |
|---|------------------|
| 1,965 Major Repairs Reserve   | 2,324            |
| 364 Borrowing   | 1,371            |
| - Borrowing for the Settlement Payment to the Government for HRA Self Financing | 57,000           |
| - Revenue   | 29               |
| <b>2,329</b>  | <b>60,724</b>    |

## 10. Capital Receipts

Capital receipts from the sale of housing revenue account property in the year were as follows:

| 2010/11<br>£'000       | 2011/12<br>£'000 |
|------------------------|------------------|
| 283 Right to Buy sales | 229              |
| 0 Auction sales        | 0                |
| 0 Land sales           | 0                |
| <b>283</b>             | <b>229</b>       |

## 11. Depreciation and Impairments

The depreciation charged to the HRA which is equal to the Major Repairs Allowance was

| 2010/11<br>£'000   | 2011/12<br>£'000 |
|--------------------|------------------|
| 1,965 Depreciation | 2,324            |
| <b>1,965</b>       | <b>2,324</b>     |

The impairment charge to the HRA in respect of reductions in the value the Council's housing stock which cannot be offset against a Revaluation Reserve balance was £0.820 million.

| 2010/11<br>£'000   | 2011/12<br>£'000 |
|--------------------|------------------|
| 42,936 Impairments | 820              |
| <b>42,936</b>      | <b>820</b>       |

## 12. Subsidy

| 2010/11<br>£'000                 | 2011/12<br>£'000 |
|----------------------------------|------------------|
| (5,493) Management & Maintenance | (5,604)          |
| (2,265) Major Repairs Allowance  | (2,324)          |
| 2 Interest on Receipts           | 2                |
| 10,851 Rent Income               | 11,422           |
| 300 HRA Adjustment pre budget    | (20)             |
| 0 Adjustments for prior years    | 3                |
| <b>3,395</b>                     | <b>3,479</b>     |

## 13. Rent Arrears

| 2010/11<br>£'000                                | 2011/12<br>£'000 |
|---|------------------|
| 172 Current Tenants                             | 151              |
| 64 Former Tenants                               | 52               |
| 1 Garages                                       | 1                |
| <b>237</b> Total Rents                          | <b>204</b>       |
| (10,640) Gross Rent Income                      | (11,357)         |
| <b>2.2%</b> Arrears as a % of Gross Rent Income | <b>1.8%</b>      |

The provision for HRA bad debts at 31 March 2012 is £ 125,000 (£125,000 at 31 March 2011)

## 14. Rent Income from Dwellings

| 2010/11<br>£'000                           | 2011/12<br>£'000 |
|--|------------------|
| (10,780) Full rental income from dwellings | (11,565)         |
| 111 Less rent due on void properties       | 160              |
| 29 Write offs                              | 48               |
| <b>(10,640)</b> Total Rent Arrears         | <b>(11,357)</b>  |

## 15. Service Charge Breakdown

Charges are made for heating, water rates, warden services and for communal services supplied to leaseholders. Service charge income is

| 2010/11<br>£'000 |   | 2011/12<br>£'000 |
|------------------|---|------------------|
| 65               | Service Charges Leaseholders                    | 107              |
| 155              | Housing Care Care element of sheltered rent     | 136              |
| 49               | Insurance Leaseholders insurance repayments     | 48               |
| 17               | Water / Alarms Sheltered accommodation recharge | 18               |
| 6                | Court Costs From tenants                        | 4                |
| 13               | Service Charges Tenants                         | 21               |
| 49               | Management Non care element sheltered rent      | 46               |
| 77               | Other   | 160              |
| <b>431</b>       |   | <b>540</b>       |

## 16. Pensions

The following transactions have been included in the HRA Income and Expenditure Statement and the Adjustments between Accounting and Funding bases under regulations to the HRA Balance (note 2) with no net residual cost to the HRA.

| 2010/11<br>£'000 |   | 2011/12<br>£'000 |
|------------------|---|------------------|
|                  | <b>Net Cost of Services</b>   |                  |
| (79)             | Current service costs and past service costs                                  | (99)             |
|                  | <b>Surplus or (Deficit) for the year on HRA Services</b>                      |                  |
| 306              | Pensions interest cost and expected return on Pensions Assets                 | 211              |
|                  | <b>Statement of Movement on the HRA Balance</b>                               |                  |
| (608)            | Reversal of net charges made for retirement benefits in accordance with IAS19 | (362)            |
|                  | <b>Actual amount charged against Rents</b>                                    |                  |
| 381              | Employers' contributions payable to scheme                                    | 250              |

## 17. Housing Services – Settlement Payment to the Government for HRA Self Financing

On 28 March 2012, the Council paid £57.029 million to the government in order to secure self financing of the Council's housing stock under the HRA reform initiative included in the Localism Act 2011. The cost of this is required to be separately disclosed on the face of the HRA Income and Expenditure Statement. The expenditure was financed by long term loans from the Public Works Loans Board (PWLB) of £57.0 million and a revenue contribution from the HRA of £29,000.

Notes 8 and 9 reflect include these transactions.

## COLLECTION FUND

| 2010/11<br>£'000                            |   | 2011/12<br>£'000 |
|---|---|------------------|
| <b>INCOME</b>                               |   |                  |
| (34,613)                                    | Council Tax   | (34,681)         |
| (5,482)                                     | Transfers from General Fund<br>Council Tax Benefits | (5,612)          |
| (11,064)                                    | Income collectable from Business Ratepayers         | (13,367)         |
| (350)                                       | Contribution to previous years estimated deficit    | (286)            |
| <b>(51,509)</b>                             |   | <b>(53,946)</b>  |
| <b>EXPENDITURE</b>                          |   |                  |
| 39,973                                      | Precepts and demands from County and District       | 39,967           |
| 10,980                                      | Business Rate<br>Payment to National Pool           | 13,284           |
| 84  | Costs of Collection                                 | 83               |
| (102)                                       | Bad and Doubtful Debts<br>Write Offs                | (202)            |
| 292   | Provisions  | 362              |
| <b>51,227</b>                               | <b>TOTAL EXPENDITURE</b>                            | <b>53,494</b>    |
| <b>(282)</b>                                | <b>MOVEMENT ON FUND BALANCE</b>                     | <b>(452)</b>     |
| <b>COLLECTION FUND (SURPLUS) OR DEFICIT</b> |   |                  |
| 676   | (Surplus) at 1 April                                | 394              |
| (282)                                       | Deficit for the year                                | (452)            |
| <b>394</b>                                  | <b>Deficit / (Surplus) at 31 March</b>              | <b>(58)</b>      |

## NOTES TO THE COLLECTION FUND

### 1. The Collection Fund

This account represents the statutory requirement for billing authorities to maintain a separate Collection Fund and is consolidated within the Council's accounts.

Council tax is normally set before the financial year on the basis of estimates that would result in the Collection Fund balancing to zero. Inevitable changes in yield and assumptions about collectability during the year cause a surplus or deficit to arise on the fund at year end.

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year, distributed between the billing authority and the major precepting authorities in proportion to their precepts in the year that the surplus or deficit occurred.

### 2. Council Tax

Council Tax income is calculated by estimating the amount of income required from the Collection Fund for Hampshire County Council, Hampshire Fire and Rescue Authority, Hampshire Police Authority and Gosport Borough Council. This is then divided by the tax base and multiplied by the ratio shown below to give the council tax for each band of property.

The Council's tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings, calculated as follows:

| Band | Estimated<br>Number of<br>Taxable<br>Properties<br>after<br>Discounts | Ratio Equivalent | Band D<br>Dwellings<br><br>£                    |
|------|---|------------------|---|
| A    | 4,786.8   | 6/9              | 3,191.2   |
| B    | 10,794.5  | 7/9              | 8,395.7   |
| C    | 7,603.9   | 8/9              | 6,759.0   |
| D    | 4,242.5   | 9/9              | 4,242.5   |
| E    | 1,739.3   | 11/9             | 2,125.8   |
| F    | 1,246.2   | 13/9             | 1,800.1   |
| G    | 299.3   | 15/9             | 498.8   |
| H    | 4.8   | 18/9             | 9.5   |
|      |   |                  | 27,022.6  |
|      |   |                  | Plus MOD contributions in lieu 803.9            |
|      |   |                  | Less allowance for losses on collection (325.4) |
|      |   |                  | Add second homes adjustment 94.0                |
|      |   |                  | <b>Tax Base for 2011/12 27,595.1</b>            |
|      |   |                  | Tax base for 2010/11 27,599.9                   |

The Band D Council Tax for a Gosport property in 2011/12 was £202.81 (£202.81 in 2010/11)

### 3. Non-Domestic Rateable Value

The NNDR multiplier for the year was 43.3 pence (41.4p 2010/11). The total non-domestic rateable value at the year-end was £40,437,145. (£40,514,370 2010/11).

#### 4. Precepts and Demands

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                   | 31-Mar-12<br>£'000 |
|--------------------|--------------------|-----------------------------------|--------------------|
| 28,173             | 28,645             | Hampshire County Council          | 28,640             |
| 1,669              | 1,694              | Hampshire Fire & Rescue Authority | 1,694              |
| 3,932              | 4,036              | Hampshire Police Authority        | 4,036              |
| 5,612              | 5,598              | Gosport Borough Council           | 5,597              |
| <b>39,386</b>      | <b>39,973</b>      |                                   | <b>39,967</b>      |

#### 5. Collection Fund balance

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                   | 31-Mar-12<br>£'000 |
|--------------------|--------------------|-----------------------------------|--------------------|
| 506                | (250)              | Hampshire County Council          | (205)              |
| 30                 | (15)               | Hampshire Fire & Rescue Authority | (12)               |
| 69                 | (35)               | Hampshire Police Authority        | (29)               |
| 100                | (50)               | Gosport Borough Council           | (40)               |
| <b>705</b>         | <b>(350)</b>       |                                   | <b>(286)</b>       |

In 2010/11 and 2011/12, £350,000 and £286,000 respectively, was contributed towards the deficit balance on the Collection Fund by the precepting authorities.

#### 6. Accounting for the Collection Fund balance

##### Council Tax

The Code requires that the Council Tax included in the Comprehensive Income and Expenditure Account is the accrued income for the year rather than, as previously, the amount included under regulations comprising the approved annual precept plus the estimate of the Collection Fund surplus made at the previous 15<sup>th</sup> January. The difference between the accrued amount and the amount required to be included under regulations (the precept plus estimated Collection Fund surplus or deficit) is adjusted through the Collection Fund Adjustment Account and as a reconciling item in the Movement in Reserves Statement.

The Code recognises that the collection of Council Tax is in substance an agency arrangement with the cash collected by the billing authority belonging proportionately to the billing authority and major preceptors. There is therefore a debtor / creditor position between the billing authority and major preceptors at the year end and this position is recognised in their respective balance sheets.

The following amounts are included in the balance sheet

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |                                    | 31-Mar-12<br>£'000 |
|--------------------|--------------------|------------------------------------|--------------------|
|                    |                    | <u>Debtors</u>                     |                    |
| 1,736              | 1,618              | Hampshire County Council           | 1,268              |
| 103                | 96                 | Hampshire Fire & Rescue Authority  | 75                 |
| 244                | 228                | Hampshire Police Authority         | 179                |
| 245                | 261                | Gosport Borough Council            | 256                |
| 96                 | 55                 | Collection Fund Adjustment Account | (8)                |
| <b>2,424</b>       | <b>2,258</b>       |                                    | <b>1,770</b>       |

#### Non Domestic Rates

The Code recognises that the collection of National Non Domestic Rates by billing authorities is undertaken under an agency arrangement and is to be accounted for accordingly.

Therefore, NNDR income billed and collected, associated impairment allowances, debtor and creditor balances and cash flows are not assets and liabilities of the billing authority and are not recognised in the billing authority's financial statements as such.

Under the Code, the correct debtor / creditor position that is recognised in the billing authority's balance sheet is the net amount of cash collected from NNDR taxpayers that has either not yet been paid to the government or which has been overpaid to the government.

The cost of collection allowance received by billing authorities continues to be included as income in Comprehensive Income and Expenditure Statement.

The following amount is included in the 2011/12 accounts in respect of the above transactions.

| 01-Apr-10<br>£'000 | 31-Mar-11<br>£'000 |  | 31-Mar-12<br>£'000 |
|--------------------|--------------------|--|--------------------|
|                    |                    | <u>NNDR National Pool</u>                              |                    |
| -                  | -                  | - Creditor (owing by the Council to the National Pool) | 304                |
| 1,107              | 2,214              | Debtor (owing to the Council from the National Pool)   | -                  |
| <b>1,107</b>       | <b>2,214</b>       |  | <b>304</b>         |

## **GOSPORT BOROUGH COUNCIL**

### **ANNUAL GOVERNANCE STATEMENT 2011/12**

#### **Scope of responsibility**

Gosport Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for; and is used economically, efficiently and effectively. Gosport Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Gosport Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council's financial management arrangements conform to the governance arrangements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Gosport Borough Council has completed the Corporate Governance Compliance Checklist which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

This statement explains how Gosport Borough Council has complied with the Code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an annual governance statement.

#### **The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Gosport Borough Council's policies, aims and objectives to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Gosport Borough Council for the date of approval of the 2011/12 Statement of Accounts.

#### **The governance framework**

Our governance framework derives from six core principles identified in a 2004 publication entitled The Good Governance Standard for Public Services. This was produced by the Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office of Public Management. The Commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The key elements of each of these core principles are as follows:

**Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.**

The Sustainable Community Strategy sets out Gosport's 2026 Vision which has been developed in parallel with the Local Development Framework (which sets out future land use in the Borough).

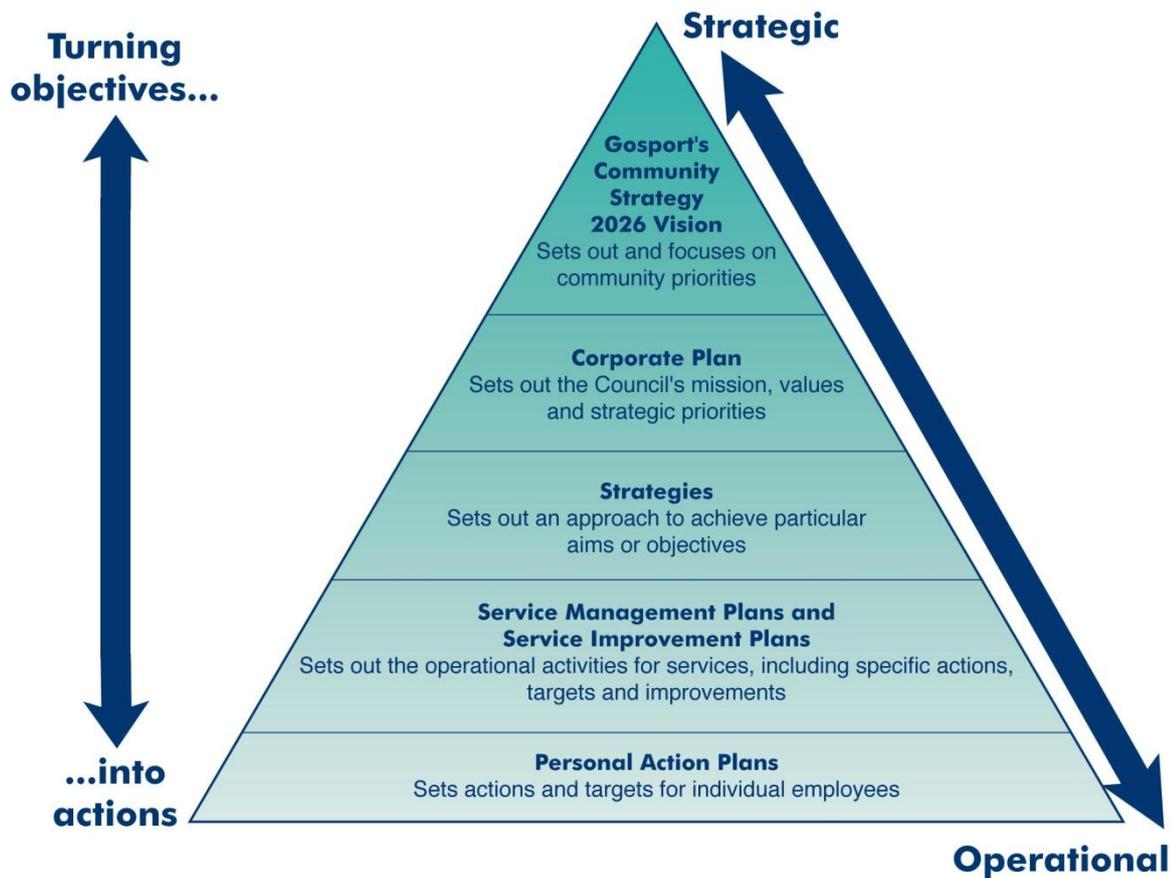
The Sustainable Community Strategy will be refreshed annually and fully reviewed every three to five years.

The Council's Corporate Plan sets out Gosport Borough Council's Mission and Values which will help us provide quality service delivery. The Corporate Plan also identifies the Council's strategic priorities (People, Places, Prosperity and Pursuit of Excellence), which are based on a combination of factors including what matters most to local people, national priorities set by the Government and the challenges from Gosport's changing social, economic and environmental context.

The Council's mission is:

***“To work with our community to improve everyone’s quality of life and deliver a sustainable future for the Borough.”***

The diagram below sets out the various links in the process of establishing and monitoring the achievements of the Council's ambitions, and shows the links between the Community and Corporate Plan which then feed into, and are informed by, strategies, service management and service improvement plans and individual personal action plans:



The Council has an embedded Performance Management Framework which has continued to be enhanced by the introduction of Covalent (software) and a further risk module has been added to maintain this key information.

The Overview & Scrutiny Committee and key officers monitor and scrutinise progress against targets and performance in priority areas effecting relevant service areas, and consider corrective action where necessary, on a quarterly basis.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Governance Report.

Through reviews by external auditors, external agencies and Internal Audit, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council's Corporate Procurement Strategy continues to provide a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. This strategy was produced in 2009/10 and is in the process of being reviewed and updated.

The Council has reviewed its Financial Procedure Rules and Contract Procedure Rules in 2011/12 and these are, incorporated in the Council's Constitution.

Risk Management is monitored by the Corporate Risk Management Group, which meets approximately four times a year. The Group reviews risk arrangements and advises Management Team on risk issues within the Council and on existing and planned risk controls.

Risks are reported by use of risk registers. Each section is required to update its own register. These registers are now held and managed on the Covalent system as previously mentioned.

**Members and Officers working together to achieve a common purpose with clearly defined functions and roles**

The Constitution sets out how the Borough Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The introduction of the Local Government Act 2000 made it the duty of every Council to review their political management structures. As part of the review Councils were required to consider the type of structure to be adopted and were given a choice of four models from which to choose. Councils with a population of less than 85,000 were offered the opportunity to adopt 'alternative arrangements' or what is sometimes referred to as the 'fourth option', and this is the option that was approved by Gosport Borough Council in 2000.

The option to employ 'alternative arrangements' allows the Council to retain a Committee structure for making decisions but together with a system that allows other Councillors to scrutinise decisions that have been made. Members of the Policy and Organisation Board are disqualified from membership of the twelve strong Overview and Scrutiny Committee. There are six meetings of the Overview and Scrutiny Committee each year.

Decisions are made by Boards and Sub-Boards of the Council with the following having the responsibility for the majority of decision making (during 2010/11. Structure amended in 2011/12):

**Council**  
**Policy and Organisation Board**  
**Community and Environment Board**  
**Housing Board**  
**Regulatory Board**  
**Licensing Board**

As the Regulatory Board deals only with planning applications and the Licensing Board with Licensing matters the law does not allow their work to be scrutinised by other Councillors. This is because the decisions made by these Boards are already subject to an appeal process, either through an independent inspector or the courts.

In addition to the Boards, there is also a Standards and Governance Committee in place to promote and maintain the highest standards of conduct by members and officers of the Council. The Committee comprises six Councillors and two Independent Members. Additionally, from May 2008 the Standards and Governance Committee is required to deal with complaints made about the conduct of Councillors as the majority of these cases will, from that point, be determined locally.

Officers give advice, implement decisions and manage the day-to-day delivery of its services. Some officers have specific duties to ensure that the Council acts within the law and uses its resources wisely. A code of practice governs the relationship between officers and members of the Council. In certain circumstances, senior and other officers of the Council can make decisions under delegated authority, as detailed in the Borough's constitution.

The Council Management Team (CMT) meet weekly to develop policy and strategic issues commensurate with the Council's aims, objectives and priorities. CMT also considers other internal control issues, including risk management, performance management, compliances, efficiency and financial management. Three CMT sub-groups, Corporate Risk, Organisation and Resources, are in place to consider specific areas of work. The Leader and Deputy Leader of the Council hold weekly meetings with the Chief Executive Officer to review progress in achieving the Council's objectives, priorities for action, performance management and forward planning for major issues.

Pre-Agenda meetings are held for the Service Boards three weeks before the meeting of the Board. The Chairman of the Board will be present at Pre-Agenda meetings along with relevant officers of the Council. At the Pre-Agenda meeting the Chairman will consider a list of items that it has been proposed to take forward to the Board meeting and will make a decision on whether each item in his opinion should be placed on the final Agenda, decided under the delegated powers approved by Council or referred to the Overview and Scrutiny Committee. Following such Pre-Agenda meetings all Members of the Council are furnished with a Key Decision List of items allowing four working days from publication to call in an item for scrutiny. Informal briefings are also held for the Chairmen of the Regulatory Board and Licensing Board shortly before the Board meeting.

Information that would be of benefit to other members of the Council staff is disseminated through regular meetings between Line Managers and the relevant Unit manager, and then through to the rest of the unit via monthly section meetings.

The Council has also adopted a number of codes and protocols that will govern both member and officer activities. These include:

- Code of Conduct for Members of Gosport Borough Council
- Code of Conduct for the Guidance of Employees
- Code of Conduct for Councillors in the Regulatory Process
- Protocol for Councillor/Officer Relationships
- Anti-Fraud and Corruption Policy (including Bribery)
- Whistle Blowing Policy
- Protocol on Principles of Scrutiny

**Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour**

It is the shared responsibility of the Chief Officers (primarily the Monitoring Officer (the Borough Solicitor) and Chief Executive Officer) and the Personnel section to ensure compliance with established policies, procedures, laws and regulations. Issues of conduct and governance must often be considered by the Standards and Governance Committee, in which case a report and recommendations are prepared by the Monitoring Officer. All posts within the authority have a detailed job specification and training needs are identified on an on-going basis and also through the six-monthly Appraisal and Personal Development Scheme.

The Gosport & Fareham Building Control Partnership received achievement for “Best Partnership”, from the LABC South East Building Excellence Awards.

The financial management of the Authority is conducted in accordance with the financial rules set out in the Constitution and underpinned with Financial Procedure Rules. The Council has designated the Deputy Chief Executive and Borough Treasurer as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972. The additional responsibility of Deputy Chief Executive

attached to this role ceased on the 31.03.12. This responsibility for Deputy Chief Executive was transferred to the Borough Solicitor from 01.04.12.

The Council operates an Internal Audit section, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. This section continues to operate under a partnership arrangement with Eastleigh Borough Council. It is assessed annually by External Audit.

Service Improvement Plans and Service Management Plans are regularly updated by Unit and Line Managers and are a standing item on monthly team meetings. These plans incorporate Corporate Plan requirements into service activities, so that staff know what they are required to do to achieve the Council's priorities and ambitions.

### **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**

As the Council chose to adopt 'alternative arrangements' following publication of the Local Government Act 2000, a Board/Committee structure is in place and each party is represented proportionally on each Board and Committee according to the number of seats held. Consequently the Council enjoys a high level of transparency when it comes to decision making and any Member of the Council is afforded the right to sit on the Boards if they are nominated for such a position at the commencement of the Municipal Year.

The Overview and Scrutiny Committee will accept and investigate formal requests for scrutiny and receive selected policies and strategies for review throughout the year.

The Standards and Governance Committee promotes monitors and enforces probity and high ethical standards amongst the Members, as well as providing a vessel for Audit and Risk issues to be considered.

### **Developing the capacity and capability of members and officers to be effective**

A designated Members' Portal covers a wide range of useful materials and guidance information is available for Members and staff to view on the intranet system. This resource enables the Council to better provide for Members the opportunity to locate important stored information and data. Within the Portal is the Members' Information Pack which provides Members with detailed corporate, strategic and financial information as well as relevant policies and other useful information such as floor plans and complaints guidance.

New Members are provided with an induction training programme to prepare them for their new role, commencing with an induction evening hosted by the Chief Executive, Borough Solicitor and Deputy Chief Executive & Borough Treasurer that covers topics such as the role of the councillor, finance, standards, code of conduct and major projects. A rolling programme of topical briefings such as those on economic prosperity, crime reduction, local government finance and making decisions on planning and licensing issues are held throughout the year to correlate with the Board cycle.

There is a wide range of further training opportunities available to Members to increase their knowledge base from skills development (e.g. chairing skills, dealing with challenging people and

media and image) to need-to-know subjects (e.g. Code of Conduct, planning issues and scrutiny) detailed in the ' Training Opportunities for Members' booklet within the Members Information Pack.

### **Engaging with local people and other stakeholders to ensure robust public accountability**

Local government is accountable and transparent in a number of ways. Elected local authority members are democratically accountable to their local area and this gives them a clear leadership role in building sustainable communities. All members must account to their communities for the decisions they have taken and the rationale behind those decisions. All authorities are subject to external review through the external audit of their financial statements. They are required to publish their financial statements and are encouraged to prepare an annual report. Many are subject to national standards and targets. Their budgets are effectively subject to significant influence and overview by government, which has powers to intervene. Both members and officers are subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the Ombudsman.

### **Review of effectiveness**

Gosport Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

1. The Borough Solicitor (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.
2. The Council has an Overview and Scrutiny Committee. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Board/Council.
3. Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. Internal Audit reports directly to the Borough Treasurer and has direct access to both the Chief Executive and Chair of the Standards & Governance Committee (Audit Committee) as required. A risk model is used to formulate a three-year plan from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager. The report includes recommendations for improvements that are included within an action plan (and are graded as critical, essential, important & advisory) and requires agreement or rejection by service managers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.

The Standards & Governance Committee also received Internal Audit monitoring reports throughout 2011/12 including its Annual Report in the June cycle.

Internal Audit reviews and computer-based assignments had been undertaken in accordance with the risk index previously agreed with Members and the Council's external auditors. All work conforms to a high standard and a full quality assurance review is undertaken on all output.

### **Significant governance issues**

Early in July 2011 it was discovered that the Council had been a victim of a significant financial fraud committed by an ex employee who had worked in the Accountancy section of the Financial Services Unit for over nine years. The Council had been defrauded of £307,810.15 during the period September 2010 to June 2011 involving seventeen fraudulent payments to his personal bank account. The fraud itself was very sophisticated but there was a trail left (within all the systems) at each stage that was subsequently analysed. The perpetrator was sentenced to 30 months in prison. The Council was covered by its insurance policy and will receive a full reimbursement. Management have accepted all the necessary enhancements of control to safeguard against future threats. Continuous monitoring and in depth scrutiny continues following the internal fraud.

The following governance issues were identified during 2011/12 as a result of the review of arrangements and by the work of external and internal audit.

| NO | ISSUE   | ACTION/PROGRESS TO DATE  |
|----|---|--|
| 1  | Enhance governance arrangements in the Council's strategic partnership arrangements.  | Run workshops and perform risk assessments with stakeholders to determine the strength of the governance arrangements and make improvements where necessary (Partial completion).                    |
| 2  | Controls operating over the Council's Debtors system at the time of the audit were poor and were not operating effectively.             | Work to improve controls has been ongoing and regular meetings are held between audit and finance to monitor progress and discuss issues / solutions (Completed).                                    |
| 3  | Improve the IT control environment following the 2010/11 External Audit Review.   | Head of ICT to review outcomes and develop an improvement plan (Being reviewed and improvements introduced in line with recommendations)   |
| 4  | To consider response to the Government's consultation regarding the future of Public Audit and any future implications for the Council. | Ernst & Young LLP have been awarded the contract for the South East Region to perform the Council's external audit from October 2012.  |
| 5  | To consider the impacts of the Localism Bill including the implementation of a revised standards regime for Councillors.                | Will be kept under review (On-going review)  |
| 6  | Improve the controls throughout the financial suite that the Council operates.  | Following the internal fraud, discovered in July 2011, this area has had significant internal audit scrutiny and improved and added controls have been introduced to mitigate further risk exposure. |
| 7  | A reducing workforce.   | Management to be aware of the loss of knowledge and expertise and short term pressure on the internal control environment.   |

|   |  |  |
|---|--|--|
| 8 | New major contracts with three new suppliers (Environmental & Housing).                      | Management and internal audit to closely overview the 1 <sup>st</sup> year operation to ensure a smooth transition with each contractor and any issues to be shared. |
| 9 | Ensure compliance with all new and updated legislation and guidance from Central Government. | To monitor closely all the amendments to both legislation and guidance in all areas and ensure compliance.   |

The Council propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of the next annual review.

Signed .....

.....

**Leader of the Council**

**Chief Executive**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GOSPORT BOROUGH COUNCIL**

### **Opinion on the Authority financial statements**

I have audited the financial statements of Gosport Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Gosport Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Gosport Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;

- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Gosport Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

**Certificate**

I certify that I have completed the audit of the accounts of Gosport Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kevin Suter  
District Auditor

Audit Commission  
Collins House  
Bishopstoke Road  
Eastleigh  
Hampshire  
SO50 6AD

27 September 2012

## GLOSSARY OF TERMS

|                        |  |
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| Accounting Period      | The period of time covered by the accounts, normally a period of twelve months, commencing on 1 April for local authority accounts.  |
| Accruals Basis         | The accounting basis whereby income is recorded when it is earned, rather than when it is actually received and expenses are recorded when the goods or services are actually received or when an obligation is entered into, rather than when the when payments are actually made.<br>Income received in advance or payments made in advance – say for the next financial year – are credited or charged to that year and not to the year in which the income is received or the payment is made. |
| Agency Services        | Services that are performed by or for another authority or public body, where the principal (the authority responsible for the service) reimburses the agent (the authority doing the work) for the cost of the work carried out.  |
| Budget                 | A statement defining the council's policies over a specified period in terms of finance.   |
| Capital Expenditure    | Expenditure on the acquisition or improvement of tangible or intangible assets which yields benefit to the Council for more than one year. Expenditure that does not fall within this definition must be charged to a revenue account  |
| Capital Receipts       | Monies received from the sale of fixed assets, which may be used to finance new capital expenditure.   |
| Collection Fund        | The statutory fund maintained by a billing authority which must be kept separate from the main accounts of the council - used to record local taxes and non-domestic rates collected by the authority, along with payments to the precepting authorities (Hampshire County Council, Hampshire Police Authority and Hampshire Fire Authority and Gosport Borough Council), the national pool of non-domestic rates and its own general fund   |
| Componentisation       | The identification and recording of the components of an asset in order to more accurately charge depreciation. This includes the separate identification and derecognition of components as they are replaced.  |
| Contingent Assets      | A possible asset that arises from past events which may be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the authority.  |
| Contingent Liabilities | A possible obligation that arises from past events which may be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the authority.   |
| Creditors              | Amounts owed by the authority for work done, goods received or services rendered within the accounting period, but for which payment was not made at the balance sheet date but for which the expenditure is included in the accounts of the financial year..  |
| Debtors                | Amounts owed for work or services rendered by the Authority within the financial year and which have not been paid but for which the income has been included in the accounts of the financial year.   |
| Deferred Liabilities   | These are liabilities which are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time  |

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| Depreciation                        | The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.  |
| Depreciation – Straight Line Method | The annual depreciation charge assumes an equal amount of wear or tear each year and the annual charge is therefore the same.  |
| Expenditure                         | Amounts paid by the authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.   |
| Fair Value                          | The concept of fair value in asset valuation is used throughout the IFRS based Code. International Financial Reporting Standards do not have a consistent definition of fair value and different definitions apply in different circumstances  |
| Financial Instruments               | These represent any item that will cause the Council to receive or pay money. Generally considered to be treasury management related but also include certain debtors and creditors but not with a statutory basis.  |
| Fixed Assets                        | Tangible assets which yield benefit to the Authority for a period of more than one year. They can be further classified into: <ul style="list-style-type: none"> <li>▪ Plant property and equipment</li> <li>▪ Investment properties</li> <li>▪ Intangible assets</li> </ul>   |
| General Fund                        | The main revenue fund of the Council which includes the net cost of all services financed by local taxpayers and government grants. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account   |
| Heritage Assets                     | Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture   |
| Impairment                          | An impairment loss is the amount by which the carrying value of an asset exceeds its recoverable amount.<br>At the end of each reporting period, an assessment of assets must take place to identify any potential impairments.<br>A downward valuation of an asset resulting from changes in market value does not necessarily result in an impairment. |
| Income                              | Amounts due to the Authority for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received.   |
| Intangible Assets                   | Assets that do not have a physical form ie software and licences   |
| Investment Properties               | Properties that are held solely for appreciation or income generation  |
| Lease - General                     | Where a rental is paid for the use of an asset for a specified period of time. There are two forms of lease – finance and operating.<br>The lessor leases the asset to the lessee. The Council is both lessee and lessor.  |
| Lease - Finance Lease               | A lease or lease type arrangements whereby the risks and rewards of ownership are considered to be borne by the lessee and therefore the asset concerned is included on the lessee's balance sheet. The income or  |

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|   | expenditure is subdivided into financing (principal) and interest elements and treated accordingly in the budget and accounts. Assets under finance leases are depreciated, revalued and impaired as necessary.  |
| Lease - Operating Lease                                     | Any lease or lease type arrangement which is not a finance lease. The assets concerned remain on the lessors balance sheet and the payments or income are dealt with as revenue income or expenditure  |
| Liabilities   | Amounts due to individuals or organisations payable at some time in the future. Current liabilities are usually payable within one year of the balance sheet date.   |
| Minimum Revenue Provision (MRP)                             | The minimum amount which must be charged to an authority's revenue account each year and set aside as a provision for credit liabilities, as required by the <i>Local Government and Housing Act 1989</i> - effectively the repayment of underlying capital debt.  |
| National Non Domestic Rates (NNDR)                          | Businesses pay Non-Domestic rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the billing authority. Business rates are pooled nationally and a share is given back to local authorities broadly based on the number of people living in the area.  |
| Pensions - Actuarial Gains & Losses                         | Actuaries assess financial and non-financial information provided by the Council or pension fund administering authority to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because <ul style="list-style-type: none"> <li>▪ events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses)</li> <li>▪ the actuarial assumptions have changed.</li> </ul> |
| Pensions - Current Service Cost                             | The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.   |
| Pensions - Expected Rate of Return on (Pension Fund) Assets | The average rate of return expected over the remaining life of the related obligation on the actual assets held by the pension scheme.   |
| Pensions - Interest on Pension Scheme Liabilities           | The expected increase during the period in the present value of the scheme liabilities because the benefits are one year closer to settlement.   |
| Pensions - Past Service Cost                                | Discretionary benefits awarded on early retirement are treated as past service costs.  |
| Pensions – Strain on Pension Fund Contributions             | Pension strain is a concept for the management of the pension fund finances arising from an employee retiring early, without actuarial reduction of pension. This causes lost contribution income and creates an interest cost arising from the associated earlier, increased cash flow  |
| Precepts  | The method by which a non-charging authority obtains the income it requires by making a levy on the appropriate charging or billing authorities. Billing authorities, such as Gosport, will themselves precept on the Collection Fund to obtain their own income.  |
| Provision   | An amount set aside for a liability of uncertain timing or amount.   |
| Revenue Contributions                                       | The method of financing capital expenditure directly from revenue.   |

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| Revenue Expenditure   | Expenditure incurred on the day to day running of the Council. This includes employee costs, general running expenses and capital financing costs.   |
| Revenue Support Grant | A central government grant paid each year as a general contribution towards the cost of the Council's services   |
| Usable Reserves       | Usable reserves are reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations (for example the Capital Receipts Reserve can only be used fund capital expenditure).   |
| Unusable Reserves     | Unusable reserves may not be used to provide services. These represent unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' and include such items as depreciation and certain impairment and downward valuation costs. |